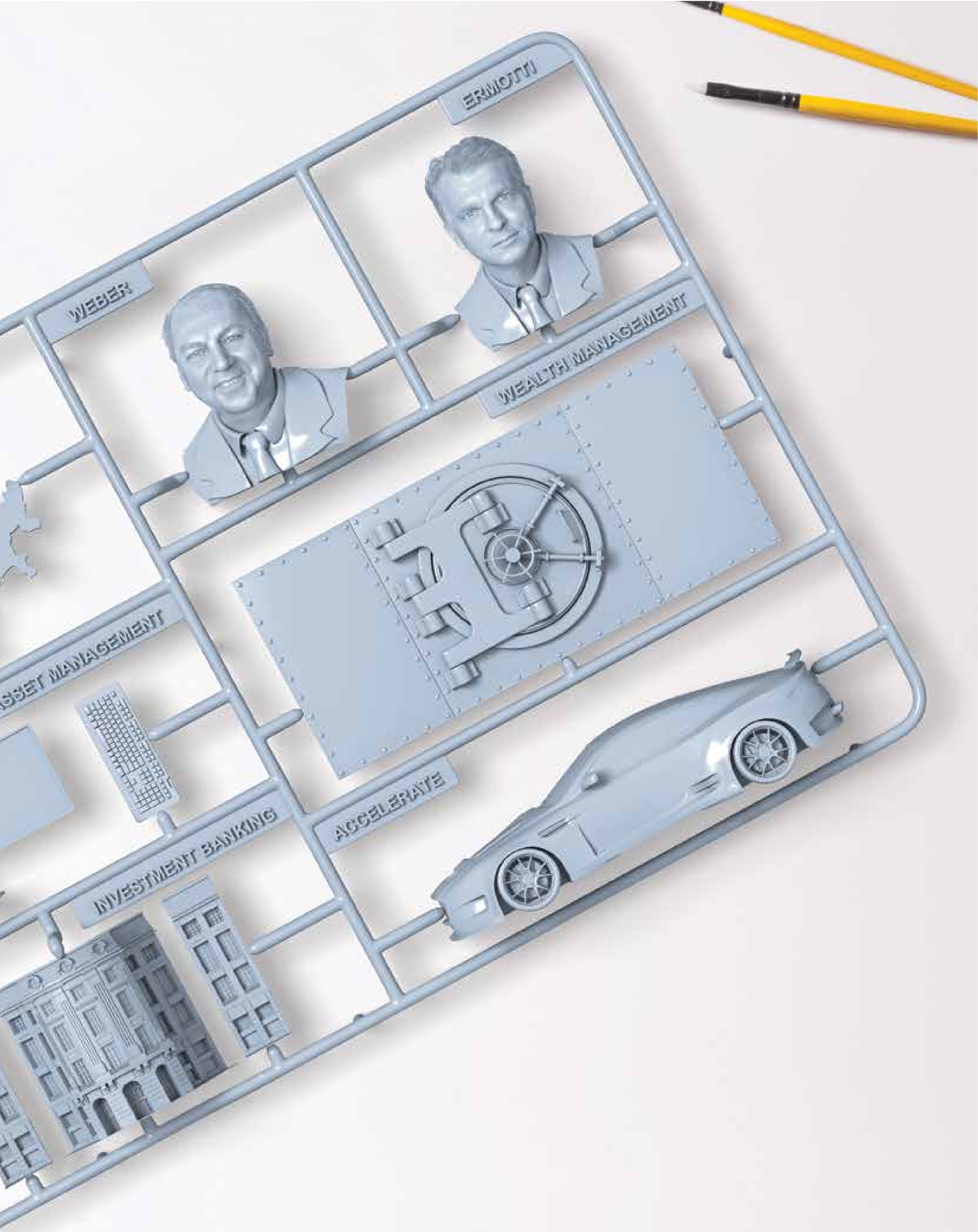
BANK OF THE YEAR

MODEL OF A MODERN BANK

Less than three years ago UBS was written off as one of the ultimate victims of the financial crisis. The bold decisions taken then by a new chief executive and his management team make it today a bank that others seek to emulate. Sergio Ermotti pinned UBS's future to the core of its leading global wealth management business. Now the business is starting to look more than the sum of its parts

By: Clive Horwood **Illustration:** Hit&Run


ERMOTTI
WEBER
WEALTH MANAGEMENT
SSET MANAGEMENT
INVESTMENT BANKING
ACCELERATE

Sergio Ermotti leans back in his chair and flashes an enigmatic smile. "Do you know where our CDS is trading today? It's 38 basis points," he says.

UBS's chief executive leaves it to Euromoney to fill the hole in the conversation. It's the middle of June, and we can see his point. JPMorgan's senior five-year credit default swaps are trading at around 52bp, Bank of America's at 62bp and Goldman Sachs's at 69bp.

Go back to 24 months and UBS's CDS spreads were among the highest in its peer group, at around 200bp.

But it's not the only measure by which UBS is leading its peers in global financial services. The Swiss bank trades on a price to book value of 1.7 times. It fully expects to hit a group return on equity target of 15% in 2015, when many competitors remain drifting in the single digits. With a Basle III CET1 ratio above 13% the bank has a capital cushion that few banks can match. That capital cushion – once seen, in terms of the so-called 'Swiss finish', as another potential nail in its coffin – is now regarded as a competitive advantage.

Perhaps the biggest indication of Ermotti's success is less tangible. But it's there in every-day discussions between bankers, or in the research notes of analysts, some of whom choose the bank as their top pick in financial services. People now talk about whether other banks will 'do a UBS'.

What UBS has done, since Ermotti became chief executive in 2011, is redefine its business. The principle is clear: UBS is now focused on things it is good at, and can be a leader in. At the heart of that strategy is its global wealth management franchise, a $2 trillion-plus asset business that is the envy of its competitors.

Ermotti repeats to Euromoney the mantra that he has been telling colleagues, clients and shareholders since the announcement of the bank's strategic review in October 2012: "Wealth management is not what we do; it is what we are."

The message is designed to be simple, but it does not tell the whole story. UBS

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>
> Axel Weber

continues to leverage its dominant position in Switzerland. Its asset management business is profitable while other banks consider whether they should keep theirs. And its investment bank, which not long ago most competitors were ready to place in the dustbin of history, is still there, and still competing, in the areas in which it operates.

"You have to admire not just the decisions that UBS has made, but the way they have executed them as well," says the chief executive of one leading US financial institution. "They're the top global wealth manager. They now have a fully integrated investment bank that suits the private bank. The markets are right to rate them highly."

NOT LONG AGO, 'DOING A UBS' would have meant something different, and its sense would have been pejorative. Since the very start of the financial crisis, UBS seemed to trip up over every possible hurdle.

It was the first big victim of the sub-prime crisis, shutting down its in-house hedge fund Dillon Read Capital Management in the spring of 2007 and about a year later announcing losses related to sub-prime of close to $40 billion.

It was the first big Swiss private bank to fall foul of the US authorities for helping its American clients avoid taxes. A whistleblower prompted a Department of Justice investigation that eventually led to UBS withdrawing its offshore tax business in the US and paying a fine of $870 million in 2009.

Such incidents hit hard at UBS's bottom line, at its capital base, and most of all at its reputation. The chief executive's office became a revolving door, with three CEOs in office in the space of 18 months between 2007 and 2009, when former Credit Suisse chief Ossi Grübel was brought in to steady the ship.

In 2011, the investment bank became the victim of one of the biggest unauthorized trading losses in history, of close to $2 billion. The actions of former equity trader Kweku Adoboli led many, both internally and externally, to conclude UBS's investment bank was not fit for purpose. It also led to the resignation of Grübel, with Ermotti taking over as an interim CEO in September 2011.

From these depths came the turning point. Lukas Gähwiler, who had joined UBS from Credit Suisse in 2010 to become chief executive of its Swiss business, recalls: "The Adoboli case was a crucial moment in changing how we looked at things. It was becoming more clear how regulation would affect investment banking. We were still running the business on the basis of maximising revenues. Sergio imposed a new way that meant we ran it on the basis of economic profit."

Discussions around the new strategy were full and frank within the group executive board, the cadre of 10 senior executives that Ermotti heads and which runs UBS. One member describes warnings of 'earth-shaking consequences' from senior members of the investment bank if the business was cut to its core. Everything was on the table – from continuing to invest to compete globally, to even shutting down or selling off the business, as a whole or in parts.

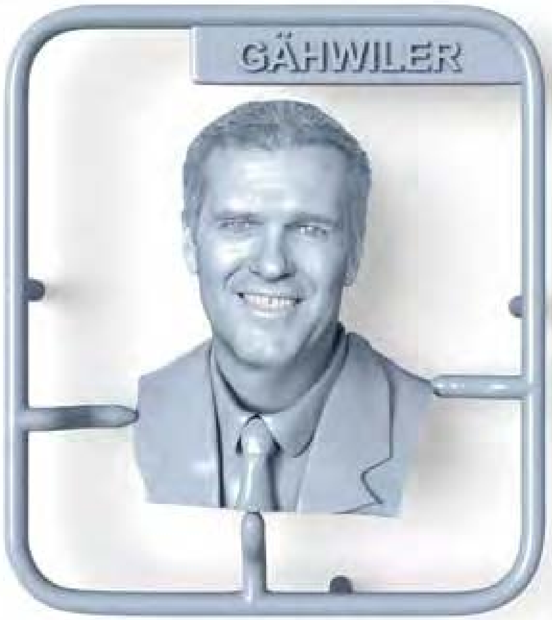
Colleagues say that Ermotti, as a career investment banker, quickly saw through the fallacy of both viewpoints. Clearly the investment bank had to change. But more important than this was a culture change.

As Ermotti says: "How could we hope to run the group as a value-added shareholder proposition when two-thirds of our capital was being used for poor returns? We had to be focused on protecting and building our capabilities in our core competencies. It was clear that being a one-stop shop in investment banking globally was a flawed concept for UBS, even in a good environment, and made no sense whatsoever in difficult times."

Axel Weber, the former head of the Bundesbank who became chairman of UBS in the summer of 2012, previously had a front row seat at the evolution of that regulatory environment. "From 2002 to 2007 the banking book at all firms barely grew, but trading books grew by a factor of seven," he says. "Regulation has one clear target – to reverse that growth in the trading book. A lot of people on boards of banks think we are in a transitory decline in trading revenues. We are not. It is clear that the future for investment banks will be focused around clients, not products. And those client-centric parts of investment banking – equities, M&A, research – are the areas UBS has always been strong in."

While many were writing UBS off, Ermotti was convinced UBS could be put on the path to recovery. He says: "We still had an incredible franchise. Our clients had been loyal. Our shareholders had been loyal as well. But their goodwill had been exhausted."

The core competence that UBS needed to focus on was wealth management, but even that had been through the mill. Jürg Zeltner was appointed global head of wealth management in 2009. "We'd had something like a run on the bank. We'd suffered outflows of SFr250 billion, the biggest a wealth manager had ever experienced." To reinforce the point, he adds: "Think about it, SFr250 billion is a medium-sized wealth manager!"



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Lukas Gähwiler

Steadying the ship was Zeltner's first task; next up was to make profit the number one target of the business. "It's easy to build up assets, the hardest bit is to make it profitable. We already had the scale to drive profitability," he says.

The other key task was to bring back a true investment culture in the wealth management business. A core plank of this was the creation of a chief investment office, which would be responsible for a house view.

With UBS being forced to bolster its capital base, this was a crucial step in regaining its wealth management ascendancy. "For the wealth management business, the more capital we have in the bank the better," says Zeltner. "But clients don't necessarily pay for that capital. All of our efforts centre around best advice and performance for our clients. As such, we put a real investment engine in place that differentiates UBS in the marketplace. That's what makes us a premium brand in wealth management."

Zeltner sums up the challenge that UBS faced: "We used to be seen as a safe, Swiss bank. We could not trade on that reputation anymore. We had to become a global, knowledgeable investment firm with Swiss roots."

WHEN ERMOTTI WAS ASKED TO become interim CEO, just a few months after he had joined the bank as head of EMEA in April 2011, he gave two conditions to the board: first, that as interim chief executive, he would have all the authority and power over decision-making that a full-time CEO would hold; and second, that an investor day to be held in two months' time would go ahead as planned.

"It was a dangerous moment; if we had called off the investor day, then the external noise around the business could have escalated into internal negativity with a disastrous outcome for shareholders," says Ermotti.

The investor day went ahead as planned on November 17. Just two days before, Ermotti's appointment as full-time CEO was confirmed. The conclusions of the discussions of the previous months were set out to a sceptical audience: UBS would focus its strategy on wealth management; the investment bank would be less complex and halve the risk-weighted assets it consumed.

At the meeting, Ermotti was given the rough ride he expected, and perhaps more. He summarises the atmosphere around him as: "Who is this guy? Will he make it? Is he the next through the revolving door?" He accepts such questions were legitimate at the time. The other constant complaint against Ermotti was cutting: "You're an investment banker, we just don't believe you'll do what you say you are going to do to the investment bank."

Zeltner says: "Only Sergio had the courage to come out and say that wealth management was not a business we are in, but it is the business we are. That it got such a positive reaction in the markets was encouraging and it showed we were on the right path."

For Ermotti, this trial by shareholder was a crucial moment. "It was the starting point in our story. We set the scene for the future. We could now be consistent in our message. And we had to deliver."

Over the next 12 months Ermotti and his team did just that, and did so in a hurry. They were pleased with the initial reaction to the new strategy and decided to go further, faster and deeper – a project they suitably dubbed 'Accelerate'.

This would involve a further clipping of the investment bank's wings. The amount of capital devoted to this part of the business, as well as the RWAs it could use, would be strictly limited. Internally, some people who had previously been shooting at the investment bank were questioning if the cuts were going too far.

But Weber says the principle of the discussions was clear: "If we have areas of business that cannot create a return higher than our cost of capital of around 10%, then we should return that capital to shareholders."

Discussions were kept to a small group. Thousands of jobs would be lost in the review. If news of those losses leaked out, it was likely that some senior bankers would walk out of the firm, leaving UBS with another crisis on its hands.

When Accelerate was announced on October 30 2012, there was a collective intake of breath from the financial markets. Ermotti and his team were to go further than anyone had expected. Group RWAs would be reduced to less that SFr200 billion. The investment bank would have to operate with RWAs of less than SFr70 billion, and would exit parts of the challenged fixed income space. The group would also take an aggressive approach to cutting costs and to its legacy portfolio of assets, which were around SFr85 billion at the end of 2013.

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>
> Bob McCann

And UBS made a very bold statement. It announced: "As a result of these actions UBS will be unique in the banking industry – it will be less capital and balance-sheet intensive, highly cash flow generative, more focused on serving its clients and capable of maximizing value for its employees and shareholders."

Shareholders liked the news, and the UBS stock price rose 30% within days of the announcement. But Ermotti was more pleased with what he saw in his business. "In November and December, in the weeks after the announcement, we could see the business we were taking in, the deals we were doing for clients, and how our own people were starting to react. It was clear they were all embracing the new strategy," he says.

ERMOTTI ADMITS THAT HE HAS taken some pleasure in proving the pundits wrong. Those pundits wondered whether someone who left school to join a stockbroker in his native Lugano at 15 years of age could lead a modern bank. They questioned whether a banker who had previously been deputy CEO of a struggling Italian bank could be the right person to lead a Swiss national icon at any time, let alone when it was on its knees. They doubted if a former investment banker could really see through such fundamental changes to that side of the firm.

Bob McCann, CEO of UBS Americas, has known Ermotti for a long time – they were both traders at Merrill Lynch in the 1990s. "We first met in Merrill's equity division," McCann says. "He's a guy who has had to deal with a bad position in his book, or explain things to a difficult client. That kind of experience, when you get into senior management, is invaluable."

But now the focus is on delivering on its strategy. And the success, so far, in doing just that pleases Ermotti more than anything else. In 2013, all of UBS's businesses were profitable in every quarter. Group adjusted profit before tax grew 44% to SFr4.1 billion for the full year. The bank's Basle II CET1 capital ratio rose 300bp to 12.8%, the highest in its peer group. Wealth management attracted net new assets of SFr54 billion, 14% more than in 2012, and more in net new assets than the second, third and fourth largest global wealth managers combined. All this was achieved while reducing RWAs from SFr258 billion to SFr227 billion. Since the announcement of the new strategy, balance sheet assets have been reduced by SFr400 billion. And in 2013 UBS achieved the planned SFr2 billion gross cost reduction plan announced in 2011.

Now competitors are quick to praise the firm. A former senior UBS executive says: “People misunderstood the business. They never said it wasn’t a global bank. But it’s now carefully structured around businesses or locations where it has a competitive advantage, such as in Asia. And UBS has a distribution network throughout the world that competitors will find impossible to replicate in a commercially viable way. An investment bank which is aligned to those strengths will be profitable and a strong competitor.”

Ermotti reinforces that point: “We deploy our capital and other resources where we feel we can make the appropriate return. But where we compete, we compete globally.”

One of the biggest turnarounds at UBS has been in its Americas wealth management business. McCann joined UBS in October 2009 after spending his entire career at Merrill Lynch. At the time, the move was a bit like jumping out of the frying pan and into the fire, given the challenges afflicting both firms. But he saw something in UBS that he liked.

“I’d competed against UBS in many different businesses from trading to wealth management while I was at Merrill,” he says. “I never thought that UBS was dead or dying. I knew the firm had always been a strong competitor, and still had a lot of very good people there.”

Most commentators thought UBS’s wealth management business in the US, which McCann took charge of, was a likely candidate for sudden death or euthanasia. The US authorities were clearly targeting UBS for the perp walk that they needed to show they were cracking down on tax evasion.

“Resolving the IRS and cross-border issue as quickly as possible was important. It was hurting the brand and the business here. And I didn’t want to spend my 50s arguing with the tax authorities of the country I lived in. We had plenty of other things to devote our time and efforts to.”

In March 2010, McCann invited UBS’s top 250 financial advisers in the US to take part in an open discussion. A

“*I don’t know if our business model is the right one for the industry, but is the right one for UBS. It’s one that our clients and our shareholders are happy with. Any opportunity cost of exiting or reducing certain business lines is more than offset by the premium that the markets are now applying to our share price because of the clear wealth management focus of the business*”

Sergio Ermotti

strategy was outlined, and the advisers asked to buy into it. And the strategy was simple: UBS would concentrate its efforts on high and ultra high net worth individuals in 25 key metropolitan centres across the US. The best financial advisers would be treated as business partners, not as employees.

McCann says over the past few years, he has thoroughly re-read the strategy document every six months to check that the business is on track. More importantly, in that time he has not seen the need to change it.

The numbers tell you why. In 2013, UBS Wealth Management Americas hit a winning trifecta for the first time in its history: $1 trillion of assets under management; $1 billion of adjusted pre-tax profit; and an average of $1 million in revenues per financial adviser.

Global wealth management remains an outstanding performer. In the notoriously tough Asian private banking markets last year, UBS turned a profit of around $500 million. Combined, wealth management returned profits of SFr3.3 billion, of which more than two-thirds came from outside the America’s business. UBS continued to attract strong net new money flows in the first quarter of 2014.

Wealth management remains at the core of the business on most levels. Its needs inform a proportion of the businesses the investment bank is still active in. Wealth management chiefs are open about their desire to keep the investment bank strong.

McCann, for example, is determined that UBS should continue to be a force in US markets. The former career investment banker says: “If you want to be the best wealth manager, you need the investment bank. And not just to provide products to clients. The investment bank can also be our eyes and ears in the market.”

Its sheer scale also gives the bank power in financial markets. As McCann says: “We have $2.2 trillion in assets. That means that all of the world’s biggest fund managers are lining up to work with us.”

Another big success has been in reducing the assets in its legacy, non-core unit. One of the key decisions was to put the portfolio in the hands of the corporate centre, rather than keep it in the investment bank.

From the end of 2012 to the first quarter of 2014, non-core and legacy portfolio risk-weighted assets were reduced by 59%, excluding operational risk. In that time, UBS had sold the vast majority of its non-core cash positions and materially exited its non-core distressed credit portfolio, with a limited impact to shareholders.

“From the outset we said that we were not looking at the opportunity cost of these assets, hoping to arbitrage market conditions,” says Ermotti. “We said very clearly if we can find a price, we will take it and get out. We had well above 1 million line items in the non-core book. We now have less than half of where we started and massively reduced complexity. We are well ahead of the announced schedule that many thought we would struggle to meet. It was an important part of winning back our credibility with shareholders."

And perhaps the biggest surprise of all – certainly to outside observers, and probably to quite a few senior people internally – has been the performance of its investment bank. Andrea Orcel joined UBS from Bank of America Merrill Lynch in July 2012 as co-head of the investment bank, becoming sole CEO of the business in November that year just after the announcement of the acceleration of its downsizing (see box).

It is his task to show that UBS can compete in the industry in the way that Ermotti and Weber have outlined – one that does not rely on its trading book, and is run for the purposes of creating profit rather than revenue.

It is early days, but the signs are good. The target for the investment bank's return on attributable equity is 15%. In 2013, the actual return was 31%, compared to just 4% in 2012. Capital allocated to the investment bank once stood at SFr30 billion; at the end of the first quarter this year it was less than SFr8 billion.

Orcel's new spin on old-style investment banking

Lots of people in the industry will tell you they always wanted to be an investment banker. Few mean it like Andrea Orcel does. His thesis at university was on investment banks and what they do for their clients.

"I've always thought that the purpose of investment banks changed for the worse since the repealing of Glass-Steagall," Orcel says. "When you combine commercial and investment banking, the latter risks becoming polluted by objectives that have nothing to do with its core values and services: financial advice, capital intermediation and securities execution. Once you subsidise one activity to benefit another, it's very hard to run a business that is in itself both value-adding to clients and profitable. Investment banking then risks becoming just about maximising revenues and product suite. That was never the right model, and is certainly not the right model today."

It was a surprise when Orcel joined UBS from Bank of America Merrill Lynch in July 2012, first as co-CEO of the investment bank with incumbent head Carsten Kengeter, taking sole charge in November 2012. While at Merrill, he was arguably the highest-profile dealmaker in Europe. Clients loved him – the likes of Emilio Botin, chairman of Spain's Grupo Santander, would not do a deal without him. But the doubters – and there were many – asked: how can Orcel make the transition from dealmaker to manager, least of all at an investment bank that had already announced its intention to dramatically cut back its business?

Orcel says he had long admired UBS. "The firm was always one of the strongest competitors, client focused and excellent in advisory, equities and some areas of FICC; all naturally underpinned by the wealth management franchise," he says. "However, it expanded excessively across FICC, and relied too much on balance sheet. Both resulted in excessive risk, low profitability and ultimately substantial value destruction."

Orcel and Ermotti were old colleagues from Merrill Lynch days. While Ermotti was at UniCredit from 2005 to 2010, the pair occasionally met for dinner and discussed the malaise affecting the investment banking industry.

Orcel was never shy in espousing his view on what had gone wrong. "I used to compare commercial and investment banking with him. Commercial banking is similar to Wal-Mart but investment banks should be more like Louis Vuitton. Sure, supermarkets make more money and some are dominant in their markets, but if you get the luxury goods sector right the returns can also be phenomenal. In my opinion it is a risk to merge the two without being very careful not to mix the different DNAs – why would you put designer handbags between potatoes and tomatoes and run these businesses identically?"

When Ermotti became CEO of UBS, he knew he had to take tough decisions on the investment bank. After listening to Orcel's views on how an investment bank should operate, he gave Orcel the opportunity to put his views to work.

Orcel says that up to that point UBS had been 'salami slicing' the investment bank, reducing business lines piecemeal. More was needed. He was fully behind the Accelerate project that Ermotti announced in October 2012 (see main article). "Contrary to other people, Sergio believed that precisely because of my background as a client focused investment banker I could execute an aggressive repositioning of the investment bank. I pointed out that many would doubt our model but that it would work and eventually be embraced by all stakeholders if we delivered consistently over a long enough period of time. This is still my hope today."

That strategic decision gave UBS no choice but to compete in a different way. "There are two different models now," says Orcel. "And both are credible. One is to be the biggest, lead with size and force, product suite and balance sheet. The other is to be much more focused, smaller, lead with relationships, intellectual capital and technology. We are not going to be one of the top eight or nine global investment banks by revenue. But we can be the most highly valued in terms of multiples and, in my opinion, an investment bank of excellence in the areas we have chosen to compete."

For many years during the crisis, UBS's investment bank was a terrible place to work. Many talented bankers gave up and left. It was tough for Orcel at the start. For the first six months he stayed behind the scenes, talking to key individuals and taking the pulse of the business. The first major announcement under his watch, at the end of 2012, was a tough one: not only were 25% of jobs to be cut, but

While risk-weighted assets are limited by strategy to SFr70 billion, at the end of Q1 2014 they stood at just SFr62.2 billion. Given that around SFr21 billion of RWAs are allocated to operational risk, the actual number that Orcel can deploy in the business is much lower than publicly stated.

Based on these numbers, analysts estimate the book value of the investment bank to be about 1.5 to 2 times. Perhaps the business will not be seen as the black sheep of UBS for much longer.

UBS still needs to demonstrate over the long term that a high capital business that can generate high level returns is sustainable. It has failed to generate the 12% to 17% return on equity that Ermotti said would be delivered in 2013 when he announced the first wave of the new strategy in November 2011. It now targets a 15% ROE. To do that, it needs to continue to cut the costs in its corporate centre, which senior managers complain remain far too high. It needs to build its businesses organically, although executives say acquisitions in wealth management are not out of the question if the right opportunity arises. It also needs to return capital to shareholders.

"Having a high capital level is very

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>
> Andrea Orcel

bankers would get paid around 50% less on average as well.

But Orcel says the new strategy means that, for the first time in a long time, people want to stay, and they want to join as well.

"We have to win business in our own right," he says. "We don't have the biggest platform, nor the balance sheet to fall back on. No one will give us business just because we are here. But if we do well it is because clients trust each one of us as individuals, the team we are part of and the quality of our advice and execution."

How does Orcel keep and attract bankers at a firm, which is, by its own CEO's public statements, some way down the list of priorities for the group as a whole, behind not just wealth, but its overall business in Switzerland as well as global asset management? "It's a positive," he surprisingly enthuses. "We have close to 12,000 in the investment bank who want to succeed as a team, add substantial value to clients and the rest of the UBS group."

You sense that Orcel is driven to prove that his investment bank can be at least an equal partner in the overall business. He's determined that it should compete on hard work, the quality of its advice, and in technology, where he knows he might have to fight for the spend to keep up with the old-style giants of investment banking.

The energy that he is so well known for is there – not just for his clients, but for his business as well. He's proud that the investment bank produced a return on attributable equity for 2013 of more than 30%, and wants to tell you that this is a better margin than the core wealth franchise was able to achieve. He thinks that within the confines of SFr8 billion of capital, with low VaR and limited risk-weighted assets, a return on equity of 30% is achievable over the long term from client-driven revenues. On this basis, he thinks, the investment bank could account for closer to 30% of group profit in the future, rather than the 20% (on 30% of total capital) that senior management says is the targeted mix.

Orcel cannot resist name-dropping the well-known figures in the finance industry, off the record of course, that tell him his team is outperforming, giving him the confidence that those client driven revenues will continue to grow.

There remains something of the pirate about Orcel, and outsiders will continue to wonder how he will fit long term in a team of disciplined, well trained captains and lieutenants.

But Orcel is clear of his place in the scheme of things, and the course that UBS continues to need to take. "We have a common purpose: keep building an investment bank of excellence in the businesses we have targeted. Our investment bank is well diversified and capital light, underpinned by intellectual capital and leading technology, and is synergistic to our leading wealth management franchise. I am convinced that this is the right strategy and the right model."

important to our business, especially for our ultra-high-net worth clients," says Weber. "Now our focus is firmly on our allocation of capital within the business. We need to go from a recovery story to being a dividend story. In the long run at least half of our profits should be returned to shareholders."

That high capital level could be needed, as could a higher level of provisions than the current SFr3.2 billion on UBS's books, given the amount of legacy litigation that could hit the Swiss bank in the future. As recently as December 2012 it paid a $1.5 billion fine for its role in Libor fixing. Investigations into foreign exchange markets, in which UBS remains a leading player, could yield similar if not higher fines. And as the banking industry is learning, mistakes that you think you have left behind can come back to haunt you over and over again.

Such issues continue to play out badly at home. The relationships between UBS, its politicians, its regulators and the Swiss people have often been fraught over the past seven years.

When Finma was constantly moving the goalposts on how Swiss banks were regulated, requiring UBS in particular to carry more and more capital, the frustration was etched on the faces of UBS's senior leaders.

Around 18 months ago, one executive was in the mood to vent about their motives. "When regulators get populist, they forget that our mandate as a bank is not only to lend, but to protect our depositors and shareholders," the executive said at the time. "Maybe they did not expect us to be so quick and disciplined in the execution of our strategy and ability to return money to shareholders."

UBS insiders admit that the recovery of UBS's reputation in Switzerland is not complete. It is recovering, surely – gone are the days such as in 2008 when a UBS shareholder at the AGM presented then chairman Marcel Ospel with a plate of sausages, the implication being: "You've destroyed the value of my investment, you may as well eat my lunch too."

But the public and politicians remain nervous and unsure about UBS. As the national icon of Swiss banking, it needs to do more to earn that trust back. "We're not quite there yet. But when we have shown continuously that the new model works, run off the legacy assets, solved our litigation issues and achieved our target results quarter after quarter, then people will recognise that success. In the end, they want their biggest bank to succeed," says Gähwiler.

What stands UBS in good stead today is the management team it has in place. Chairman Weber gives huge credibility to the institution, not just for his former role at the Bundesbank but because of the authority and easy charm with which he conducts himself.

He's self-deprecatory (he says with a smile: "My biggest qualification for my current job is that I know banking regulation and I never worked in banking before"). He is also straight to the point: "I spend about 80% of my time dealing with regulators and related issues and 20% on the business," he says. "I'd like it to be the other way round but it's important to support Sergio and the management team in focusing on the executing our strategy and running the business."

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>
> Jürg Zeltner

Ermotti and Weber seem a good partnership. This is important to UBS. At the height of the crisis, relations between respective boards and chief executives were strained to the point of being dysfunctional.

Now it has a close-knit team that is pulling in the same direction. Stability is important. Zeltner, a 30-year veteran of the firm, makes the point by referencing the past: "Since I took over the wealth business in 2009, we have had three chairmen, three CEOs and five heads of investment banking. But when we started to see talented, driven people starting to join the senior leadership team, it really helped to keep those of us that had been at the firm through the toughest times focused and motivated."

Ermotti smiles as he recalls the amount of time competitors spent talking about UBS when the bank was on its knees, and that they continue to do so now for more positive reasons. Bank chief executives are looking jealously at UBS's share price. When Barclays chief executive Antony Jenkins announced his strategic review in May this year, with big cuts to investment banking and the creation of a legacy asset portfolio, many analysts compared the move – unfavourably – to what UBS had done. Others are likely to follow suit, although few will do so with the foundation of the world's biggest wealth manager as its core.

"I don't know if our business model is the right one for the industry, but is the right one for UBS," says Ermotti. "It's one that our clients and our shareholders are happy with. Any opportunity cost of exiting or reducing certain business lines is more than offset by the premium that the markets are now applying to our share price because of the clear wealth management focus of the business." EM

BEST GLOBAL BANK

UBS

The clear definition of a radical strategy distinguishes the Swiss bank from most of its peers. The successful execution of that strategy makes it Euromoney's Bank of the Year

Then and now. It's the only way that you can look at UBS. And the turnaround is one of the most dramatic in the history of financial services.

The story of UBS's fall from grace is well documented. Suffice to say that it was one of the first, and biggest, victims of the sub-prime crisis, losing tens of billions of dollars in an ill-judged attempt to be the world's top investment bank.

That, and a series of scandals that culminated in unauthorized trading losses of close to $2 billion in 2011, had sceptics writing death notices for the firm.

It wasn't just the losses, it was the loss of reputation that hit UBS so hard. At one point it had suffered net outflows of more than SFr200 billion from its core wealth management franchise.

Enter a new CEO and a management team determined to turn the fortunes of the once-safe Swiss bank around.

Just two days after his confirmation as full-time chief executive of the firm, Sergio Ermotti announced one of the most radical repositionings of a global financial services business in November 2011.

The strategy was clear: focus UBS around the areas in which it could and should be a leader. That meant it was a global wealth manager first and foremost, underpinned by a Swiss universal bank and a powerful asset management business, with a greatly reduced investment banking operation that was there to complement its bigger franchises, but with much reduced capital and risk-weighted assets allocated to the division.

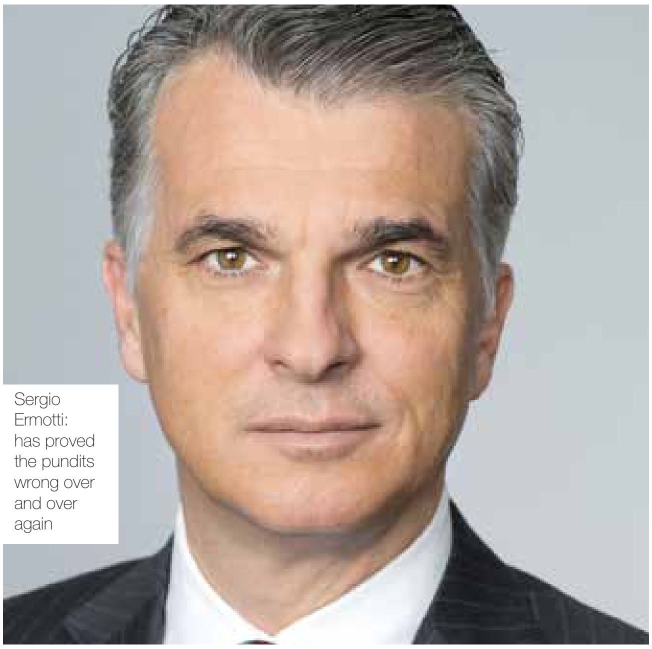
While the announcement was broadly welcomed, many doubted that Ermotti could deliver on the strategy. But Ermotti delights in proving the pundits wrong. In less than a year came a new announcement: Project Accelerate. This took the restructuring of the investment bank further than anyone had anticipated, closing or cutting down business lines that could not deliver an economic profit to the group, notably in the troubled FICC sector.

Even some senior executives within UBS thought that Ermotti was going too far. But the markets loved the announcement, with the share price jumping 30% in the next three months.

Now Ermotti had to prove that he could not only produce a strategy, but also deliver on it. And 2013 proved a better year than even bank insiders could have wished.

In 2013, all of UBS's businesses were profitable in every quarter. Group adjusted profit before tax grew 44% to SFr4.1 billion for the full year. Wealth management attracted net new assets of SFr54 billion, 14% more than in 2012, and more in net new assets than the second, third and fourth largest global wealth managers combined. All this was achieved while reducing RWAs from SFr258 billion to SFr227 billion. Since the announcement of the new strategy, balance sheet assets have been reduced by around SFr400 billion

That strong performance continued into the first quarter of 2014, with profits up 97% on the same period last year. Its 13.2% Basle III common equity tier 1 ratio is an industry leader.



Sergio Ermotti: has proved the pundits wrong over and over again

Its most important industry leader, though, is the global wealth management business. In 2013 it delivered profits of SFr3.3 billion, up 25%. Investable assets globally were close to SFr1.8 billion – giving the group huge scale and influence across financial markets. The Americas part of the business reached a key milestone: it has $1 trillion in invested assets, $1 billion of adjusted pre-tax profit, and $1 million in revenues per financial adviser.

And the investment bank, written off as an impending irrelevance by rivals only 18 months ago, has surprised many. It is picking up deals from highly-prized clients, such as KKR and Deutsche Bank, and showing it can generate economic profit. For the first quarter of this year, the division's return on attributable equity was close to 30%.

UBS still faces some tough challenges. It needs to continue to deliver on its cost-cutting programme. Like all global banks, it is likely to face litigation and fines on legacy issues. It holds SFr3.2 billion provisions. That may not cover the payouts, but more worrying for Ermotti will be if previous misdeeds tarnish the reputation he has worked so hard to restore.

Most of all, UBS needs to show that it can deliver its target return on equity of 15% on its high capital base. So far, it's the one thing Ermotti has failed to deliver. Even accounting for net profit before amortization and impairment of goodwill and intangible assets, UBS's ROE in the first quarter was 10.7%. Analysts suspect UBS needs an aggressive return of capital to shareholders to get anywhere near 15%. But Ermotti has proved his doubters wrong before. Don't put it past him to do it again.

SWITZERLAND

BEST BANK

UBS

UBS is considered a proxy for the Swiss nation, and the bank's position on its home turf goes from strength to strength under country chief executive Lukas Gähwiler.

For a bank so clearly focused on providing returns while minimising the capital it applies, UBS Switzerland is a beacon. It contributed around 40% of group profits, while accounting for just 13% of risk-weighted assets. That helped UBS, despite running the highest capital levels of its peer group with a Basle III CET1 ratio of 12.8%, to generate a return on equity of 41%.

UBS's franchise in Switzerland is unmatched and growing. It has 2.5 million retail customers, 150,000 wealth management clients and banks 130,000 corporates. It provides one in five Swiss mortgages, and manages SFr1 ($1.12) in every SFr6 saved. Its striking deposit margin management strategy stabilized margins within a target band of 35bp to 40bp, allowing the bank to maintain a healthy interest income level despite historically low interest rates.

Net new asset inflow at its core Swiss private client business reached 25%, the highest levels since the 2008 crisis. The corporate franchise was strengthened by an enhancement in its transaction banking offering, with companies now able to clear through a network of 3,000 correspondent banks. The Swiss investment bank also performed well under its new capital-lite model, generating about 20% of profits in Switzerland and around 30% of global investment banking income.