Bank of America Global Research Annual Financials CEO Conference

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Fireside chat with Sergio P. Ermotti, Group Chief Executive Officer;
Moderator: Antonio Reale, Bank of America

Transcript. Replay are available at www.ubs.com/investors

Antonio Reale

We can start. Good morning, everyone, once again. What a better way to start then with one of the most influential banking executives out there. We're very pleased and happy to start and kick off our 29th Financials Conference with Sergio Ermotti, CEO of UBS. Many thanks, Sergio, for joining us today and a warm welcome to everyone. We've got a few things to get through, as always, plenty of topics to cover. And I want to leave enough time also for questions from the audience. So with that, maybe start with Sergio.

Maybe to start, can you run us through your thoughts on how you see fundamentals holding up and how do you manage a global business like UBS in the current environment?

Sergio P. Ermotti

Well, first, I think that the economic data, while they are still somehow disperse, it seems to lead into a soft landing situations where, you know, across the board, consumers are still quite constructive. We see clients still on a risk-on attitude, rates are coming down is helping, for sure. And, you know, from our standpoint of view, they are it's pretty much aligned to our expectations by year-end. So we have been flagging 100 basis points, potential cuts in the US by the end of the year, 50 basis points in Switzerland.

So for the time being, we see, you know, a quite, you know, risk on environment and unless there is any disruptions coming out of the post-elections in the US, I do not expect any major changes.

UBS

Antonio Reale

Now, it's been a little over a year since the closing of Credit Suisse. Your commitment to stakeholder hasn't really changed and the progress has been visible. You're almost a third of the way through the plan now entering the next phase of your integration. What would you say your team is delivering better so far, and what do you think you'd need to do more versus your projections?

Sergio P. Ermotti

Well, I guess when I look at cost and cost progress, when I look at, you know, non-core legacy assets wind-down and, you know, simplifications, you know, we are, I would say, around six months ahead of schedule. So, I think I would say that we are in a good trajectory. And, you know, honestly, I think that things are going pretty well.

So, we just finished a very important milestone, the legal entity mergers that required a lot of efforts because, you know, we got basically in 40 jurisdictions, we got 80 regulators giving us 180 approvals to merge the legal entities. And this is very much the prerequisite to tackle the next round of costs reductions.

So, in that sense, I don't think we could do much better than what we have been doing now. I'm not complacent, I'm not saying that – but the next migration is going to be the client data migration. There going faster only means creating potential operational risks. And there is very little appetite, if not zero appetite to do that.

So, I'm pretty much confident that we are on the right track, and we should just continue to execute in alongside what we communicated externally. And that will be enough to create value for shareholders in the foreseeable future.

Antonio Reale

So, a ton of gigabytes to integrate. So, a key part of the integration is of course achieving cost synergies. And so far, you've made good progress on gross cost savings and in cost reductions in the non-core unit, as you mentioned. When do you think we can expect to start seeing gross cost saves convert into net cost savings in your core businesses? And how should we think about the trajectory from now on?

Sergio P. Ermotti

Well, unfortunately, you won't see too much of – much more cost savings coming through before the late part of 2025 and going into 2026, because de facto, we are still running two banks, two systems to infrastructures. So, while we took down, you know, let's call it around USD 4 billion of cost so far, you know, and the big chunk is coming from Non-core, which is mainly driven by the Investment Bank infrastructure. Everything which has to do with wealth management and the Swiss business is going to just, you know, be decommissioned in the second part of 2025 and into 2026.

So only then you see the true cost of what we call underlying cost coming down. So again, and also, it's very important to understand that as we – as I flagged a few times that, you know, the trajectory of cost is not a linear one. So, while we have a ramp up of cost to achieve in the next few months and quarters, the true cost reductions will only come later as we execute the plan as I just mentioned.

Antonio Reale

Very clear. And with respect to I mean, one of the debates, of course, has been around the outlook for your investment banking business as you look ahead, how do you see things evolve there and what metrics do you look to assess the performance in your IB business?

Sergio P. Ermotti

Well, the business is developing, you know, as we expected, we had a pretty good run in the last three quarters, ending the second quarter in terms of getting up the productivity of the 1,600 people we onboarded from Credit Suisse.

Now we have a more comprehensive offering in banking, and we also enhanced our markets business, our research coverage in the US. We see, you know, we see market share gains in equities, in FX. We see market share gains in banking, particularly also in the US.

So, it's not just an absolute tailwind we see in terms of fees, but also most importantly for us, was to see a structural market share gain. So, I see the momentum as very strong momentum in terms of pipeline and the ability to win mandates.

Of course, when I look at the current market conditions, you know, how these mandates translate into transactions that gets closed it's another matter. So, we all see that the second – the third quarter was a little bit more challenging. And on the other end, we saw a very constructive environment in terms of volatility in markets in the second [*Edit: third]* quarter. So, overall, I stay very confident that we are monetizing all the investments we did.

In terms of how we measure the business is still the same. So, nothing has really changed, we want to see a 15% return on allocated equity over the cycle. And, you know, and while remaining with a maximum of 25% consumption of the risk-weighted assets, excluding the Non-core Legacy numbers.

Antonio Reale

And that's very clear. Maybe a word on your business, on your Swiss business, I should say. Sabine Keller-Busse, President of your Personal and Corporate Banking unit, spoke about the Swiss outlook in the Swiss business conference earlier in the month. What were your key takeaways from this? And more broadly, what is the outlook for your P&C?

Sergio P. Ermotti

Well, to take away is that we just took the opportunity while we were hosting our Basel Switzerland conference to update investors and clients there on our integration efforts. As you know, the Swiss business started the integration six months later than the rest of the bank because we were still evaluating what to do with the Swiss entity of Credit Suisse when we decided to go for the full merger, we started really to embark into the integration.

You know, our, you know – the Swiss business is generating is using around 30% of our resources. It's a very important, is one of the two pillars of our strategy alongside with wealth management is supported by a strong and focused investment bank and asset management. But when you look at in essence in Switzerland, we are covering the full spectrum of banking activities. And it's very important for us both from a financial point of view, but also from a diversification standpoint of view.

Our commitment in Switzerland is still the same, so we are optimizing right now what we inherited. Some businesses were run at unacceptable levels of profitability or risks, but we are talking about, you know, not a significant part of the equation, but is pretty hard to tackle. We will still commit around CHF 350 billion of loans to the Swiss economy. So, which, you know, it's around 99% of the combined exposures that the two banks had. And so pretty much more of the same.

We want to return to the same returns UBS had before the acquisition. So, around 19% return on allocated equity, which is fully aligned with best in class returns for this kind of business when you look at the Nordics and our peers. So, it's very simple, so it's a very important business where we also continue to see growth, particularly in the areas of supporting entrepreneurs and wealthy clients.

Antonio Reale

Maybe let's move on to talk about wealth then, that's over 50% of your revenues. We can start perhaps with a big picture question first after looking at the market, you know, we've seen a decade-long bull market, the wealth management industry now seems to be encountering a bit more challenges ahead with structural headwinds, hitting both the revenue and cost sides. Your Credit Suisse takeover almost happened at the ideal time. Do you think the industry is facing structural changes? What opportunities and challenges do you see ahead for the industry as a whole?

Sergio P. Ermotti

Well, honestly, I don't see these changes being particularly relevant at this point in time is more of the same. I, you know, I've been seeing this kind of, you know, structural changes and commoditization and erosions of margins for the last decade. So, I think that, so what we are facing right now is nothing new. For sure now technology and potentially new opportunities are coming up to free up resources, generate better returns that are also helping, you know, us managing even more efficiently our client relationships in terms of pricing as well.

So, there is a, whatever we optimize from a cost end point of view, a big chunk goes back to clients. So that's the reason it's very important for us not only to manage more effectively the stack of clients we have, but also to continue the growth. And if I look at the dynamics supporting wealth management, the secular ones, are still intact. So, household wealth creation, the needs of people to save, the fact that in every place in the world high net-worth individuals, ultra-high net-worth individuals are becoming more sophisticated in the way they want to be served, fits very well into our business model.

And, you know, the acquisition of Credit Suisse has accelerated our growth is the equivalent of seven years or so of organic growth, is particularly important in certain areas of the world, like Latin America, Southeast Asia, where we have a very complementary, we are have very complementary footprints, and now we have a critical mass to reinforce our leadership position. So, I still look at the business in a very positive way in terms of growth trajectory, notwithstanding the fact that the competitive landscape is also coming from non-traditional banking players is there.

So, you know, sponsors are keen and asset managers are keen to tap into wealth management clients directly. But so we are not standing still as you saw, we also launched very recently de facto a new initiative that combines all our alternatives capabilities under the roof of UBS and Crédit Suisse combined, that allow us overnight to create the number five player in terms of alternatives with USD 250 billions of assets. So, definitely there we have room to continue to respond to all those challenges.

Antonio Reale

And on the US side, the US is your single largest wealth market. What do you see as the key drivers of the US growth now? Is it expanding financial advisors, organic digital investments or M&A?

Sergio P. Ermotti

No, the top priority in the US is to restore profitability to a more sustainable level. So, I think that we are profitable, but we are not as profitable as we should be. Our aim is to narrow the gap with our competitors. I always say it is extremely challenging and if not impossible to close the gap with our competitors in the US because we have a completely different feeder and business model in the US than many of our peers.

But, you know, we need to achieve a mid-teens return in the US and this is possible by doing better what we can do by bringing together the UBS capabilities, particularly also in respect of the new, for example, capabilities in banking that will allow to leverage the USD 2 trillion clients assets we have. You know, we have, you know, in the US we have a high penetration of high net-worth and ultra-high net worth clients. Those clients are entrepreneurs that owns businesses, the participations, we need to do much more than we've done in the past between banking and wealth management.

We need to institutionalize our relationships further with the low compensable businesses in terms of payout. So, like lending, like deposits, like a trust or planning. And so, I'm convinced that over the next couple of years we will narrow the gap and that is going to be then a starting point to then eventually go into a new chapter. Until then, focus is execution and fixing that part. And so, I'm confident that with Rob Karofsky now leading the team, we are entering in a good path in terms of the next progress we will show.

Antonio Reale

No, that's a key part of your acquisition story. I guess another important part is on capital. You've been clear that you see a 14% common equity tier 1, a sustainable level over the medium- to long-term. The market continues to worry that the Swiss rules might take that number higher. Could you talk us through what you see as the moving parts in there?

UBS

Sergio P. Ermotti

Well, I fully understand that the market is clearly waiting to see to get more clarity on this matter. I think that at this stage is really still too early to speculate about the outcome. It's not also, I would say, easy to resist in commenting on comments that our – seeing you're saying but, you know, we need to stay focused on delivering facts that, you know, we are engaged in technical discussions as we speak. We, you know, we are not in a position to, you know, dictate or make a request. We are in a position to try to explain so that all parties can come to a balanced outcome, one that will allow, you know, a fair and balanced outcome, the one that will allow UBS to stay competitive and also be a relevant supplier of services for the Swiss economy.

So I guess we're going to find probably more in the late part of this year, early part of next year. But, you know, we are not really in control of timing and the outcome.

Antonio Reale

I'll wait and see. So that's on the capital debate. You've made it also clear that you remain committed to delivering on your mid- to long-term ambitions for shareholders distribution. How should we think about the mix between dividends and buyback going forward?

Sergio P. Ermotti

Generally speaking, I mean, nothing has changed. Nothing is likely to change in the foreseeable future because, you know, I think it's our ambition is to grow our current cash dividend, you know, mid-teens, in the level of mid-teens year-on-year. And then complement this with share buybacks. As you know, we have been announcing USD 1 billion share buyback for 2024. We have executed the share – the share buyback. And now we will announce the next capital returns plans for 2025 in the early part of February, when we announce the fourth quarter results.

So our view is that, you know, we want to continue to return, you know, give returns to shareholders that are aligned to our 2022 payouts. And as I said before, you know, share buybacks are not a stop-and-go kind of exercise we do so, they are going to be part of the mix in the next couple of years. Of course, we need to now see exactly the outcome of the too-big-to-fail review on how we're pacing. But I'm pretty confident that we're going to have a progressive component also in that respect.

Antonio Reale

Okay. I think we can start maybe to get a sense of the questions from the audience. If anybody would like to ask a question to Sergio, please raise your hand and we'll get a microphone to you, please. There's one question here.

Member of the Audience

Hi there, Mark Hoge from BDL. It's too early to comment on the capital recalibrations as you mentioned, but what about potential levers that you have in terms of mitigation? There's been speculation of shifting excess capital from Credit Suisse entities in the United States, for example. So what are the levers that you have? I mean, notwithstanding what the eventual requirements will be?

Sergio P. Ermotti

Well, it's very difficult to do scenario analysis and talk about that without knowing exactly what the rules are going to be. But in respect of rationalizing legal entity, trapped capital and liquidity, this is exactly what we do regardless of the outcome. So it's a necessity, so we have clearly inherited a completely different legal entity infrastructure, booking model, and that's the complexity I referred to before when I spoke about the fact that we need to migrate clients, we need to migrate infrastructure in order to achieve the synergies, both in terms of cost and the full capital and liquidity benefits of it. Right, so but that part of the equation, you have to assume we would have done it regardless. So it's not a game changer in that, from that standpoint of view vis-a-vis that too big to fail changes.

Antonio Reale

Thank you. Any more questions? There's one in the middle.

Member of the audience

I had to ask you for the US. so I mean, in your wish list or realistic list, what is easier to achieve of the restructuring of the US business? To give more products to the clients, so it's penetration, to do things more efficiently because there's a cost issue, to grow clients. I mean, your wish list, what is – how should we follow those milestones that Rob is going to try to achieve?

Sergio P. Ermotti

On my wish list, you have a, you know, you have all of the above. So, I mean, the issue is that there is no silver bullet. You're not going to have a magic one business or one solution to narrow the gap to our peers. You need to do everything. You need to work on revenues, you need to work on cost, you need to work on products, capabilities and you need to work on growth of the business. So I think it's really much everything. So, we have very clear ongoing projects on how are we going to deliver them.

Some of them are more immediate, others will take time and, you know, it's only through, you know, a very focused and disciplined execution that we will achieve those targets.

Antonio Reale

Maybe one more question from me then on, we've talked about progress made in one of the areas which was most visible was on your Non-core and Legacy unit, which is considerably smaller than only a year ago, maybe. Could you talk about the performance to date and the outlook of your Non-core cost savings all the way through 2026? How you see things come through?

Sergio P. Ermotti

Well, I mean, I'm very pleased with the progress we made so far in non-core. If you go back into the 2022 pro forma, I think that Non-core took out USD 3 billion of cost. If you look at only in the recent, the last 12 months or so, probably a top USD 2 billions of cost we, and which, you know, talking about cost we always mention that the biggest and most important priorities around Non-core was cost, taking out infrastructure. I mean, you know, early on in the debate, people were asking a lot about the assets and credit and market risk exposure, risk weighted assets, which we are taking down also very proactively, I mean, around 60%.

But this is not the priority for me. The biggest real, a game changer is to take out the cost and here I'm very pleased with what we are doing and still more needs to be done. And we flagged that we believe that we can continue to make good progress on that front, so the outcome is going to be, as I mentioned, you know, 50% of the USD 13 billions we save gross is coming out of Non-core. And so if I look at the journey is still little bit more than a half done. In terms of risk weighted assets and LRD, we are down 60% from, you know, the peak so day one.

We still manage very proactively the unwind of this transactions. But there I think that there, we have the luxury to look at really value creation for shareholders. So we always look at how much capital we free up, what is the cost of capital that we free up. And as we progress, we can now embed much more also the element of cost to sustain the business as an element that will drive also the next round of risk-weighted assets reduction.

So, still work to be done. We closed 45% of the books, so which tells you pretty much is on other numbers that tells you great progress, that's still, you know, at least 18 months to two years of efforts to go.

Antonio Reale

There's more wood to chop. Anymore questions for Sergio from the audience? One more thing I wanted to ask you was on the wealth market, particularly in Asia, you got USD 600 billion invested assets. UBS has been successful in China. Now my question is, with growth slowing, can this continue to contribute to near-term growth in Hong Kong in particular, we've seen a combination of negative GDP and falling property prices. Should we worry about growth from here?

Sergio P. Ermotti

Well, of course, the journey, as we mentioned few times in the last couple of years now that the journey in Asia and China is not the one we saw in the last 20 years. Having said that we have been in Asia and China for 50 years. We do see, you know, we're going to continue to grow in Europe, of course. But the two engines of growth for us, which going to deliver superior perspective are still the US and Asia. Asia will, as you mentioned, will grow – the grow will be less linear, less probably important in absolute terms. But wealth creations and the demographic trends are really supporting our business, we see a lot of scope for continue to invest in a very focused way in our Asian businesses, including China. So we remain extremely supportive of that.

Antonio Reale

A general impression is and it was partly what I was alluding earlier on the wealth question is that it seems to be that there's less market-driven growth going forward and a lot more operational leverage to be extracted, to be able to sustain those margins and defend margins in wealth. Do you think that's a fair assessment and when you look at your business globally?

Sergio P. Ermotti

Yes but there is also a lot of changes in Asia. You know, you look at, you know, the corridor between, for example, Asia and the Middle East is really growing a lot. So in terms of people moving for business, wealthy people moving their domicile and our infrastructure is really prepared for that. So the global footprint we have and the very unique capabilities we have are helping us to capture not only the, you know, the growth, but also the movements of the stack of people moving between different countries and jurisdictions.

So I really believe that, you know, this environment is quite helpful for us in terms of displaying our capabilities. In a lower growth environment, of course, you get less beta, but it's also making the life of our competitors more challenging. So I mean, let's face it, you know, we have been able in the past, in the last 10 years, in moment of downturns in Asia, to outbid our competitors in terms of growth. So I do feel that we're going to pursue the same focus is not just about surfing the wave here, is about also creating a differentiating proposition to clients and capture the extra value.

Antonio Reale

That's very clear. One last question for me is one of the themes of this conference, of course, is to understand how banks prepare for a lower interest rate cycle. And I just put the same question to you, how are you preparing UBS on a global business basis to interest rates going down?

Sergio P. Ermotti

Well, as I mentioned before, you know, we are preparing we are, you know, planning and, you know, short- but also medium-terms and the business outlook for us is very much influenced by an understanding that rates are going to come down. As I mentioned, in the US we were flagging 100 basis points for the rest of the year, cutting by the Fed by the end of the year. So we got 50 – the Swiss National Bank hasn't announced yet their policy but we do expect 50 basis points contraction between now and year-end.

So we are preparing for that. And now the uniqueness of our business model is, is allow us to be fairly confident that if the kind of soft landing and lower rate environment is not disruptive or influenced by macroeconomic shocks. So we have shown in the past that we can operate profitably in a lower rates environment or even in a negative rates environment, because only 25% of our revenues are coming from NII. When rates comes down, we are able to display even more forcefully our unique offering across the asset allocation, and transactions, our capabilities, usually you have a pickup in volumes. Usually you see clients re-lever their positions.

So we have kind of offsetting dynamics, lower rates means, you know, clients are more willing to take on leverage. If you look at the leverage we – contractions we had with clients in the last 24 months, you see it very clearly. So I'm not saying that we have a full, full 100% hedge, but pretty much a diversified outcome because of that. So we are not complacent, but we are confident that we can navigate a lower rates environment like we did in the past.

Antonio Reale

And that's very visible in the revenue mix. Okay, unless there's any last minute questions from the audience, I'll thank you, Sergio, for a very insightful session. And thanks for taking the time to join us today.

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