UBS

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Fireside chat with Ralph Hamers, Group Chief Executive Officer;
Moderator: Stefan Stalmann, Autonomous

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

Stefan Stalmann

So good afternoon, everyone. My name is Stefan Stalmann. I cover the French and Swiss banks at the Autonomous part of Bernstein. And it's my great pleasure today to welcome Ralph Hamers, the CEO of UBS to our conference. Thank you very much for being available today.

Ralph Hamers

Sure.

Stefan Stalmann

And thank you very much for everyone in the audience for your interest in UBS. There's one quick housekeeping item. You know that we have set this up as a fireside chat between the two of us, but that does not mean that you cannot participate.

If you do have questions for Ralph, please use the Pigeonhole software to submit the questions. You can either do this by using your QR code on this handout from your conference pack, or you can go directly to pigeonhole.at. Passcode is SDC 2022. And I would encourage you to make generous use of this option. And with that out of the way, I would say we dive straight into our discussion.

Ralph Hamers

Sure.

Stefan Stalmann

Ralph, this is the first time that UBS is at our conference. You're a European bank. There's probably many generalists in the audience who are not so confident about every detail of UBS. Do you want to give us maybe a fast rundown of what UBS is and where you're going strategically?

Ralph Hamers

Yeah, we wouldn't quickly refer ourselves as to being a bank. So basically, we are an ecosystem for investing. That's what we're building. We are globally seeing the largest network for private money. Basically, we're active in wealth management, have four and a half trillion of invested assets between asset management and wealth management of which 3.2-ish in wealth management.

And we're truly global. And what we're trying to build is, what I just said, is an ecosystem for investing where we have these wealthy individuals in different wealth bands as from, say, 2 million to several billion. We basically want to make sure that we cater for their needs through our own product, but also through third party product, whether that is more in the public markets or in the private markets.

And what we see is that if you manage this as one, that you get a bit of a flywheel going, because there is customer demand and customer activity through our ecosystem. That in itself provides us with a position towards either the public markets and equities. That generates insights for us, generates flows through our system through which we can provide liquidity, that attracts liquidity. That's one of the flywheels right there.

The other flywheel that we are working on is around the growth of the alternative space, where basically it's not anymore that a alternatives provider comes with a product to us and we have to sell it. It is much more that the alternative provider actually wants to be part of our ecosystem because they want to know what the clients are looking for.

So that's what we're building around all of the different wealthy individuals and invested assets that we have. That's aspect number one of UBS. Aspect number two of UBS is that we are truly global. From a profit before tax perspective the US is the largest at 28%. So, and then Asia is 26%. And then EMEA is like 16%. And the remainder is Switzerland. In Switzerland, we are a local bank. But outside of Switzerland, we're truly a wealth manager with investment banking and asset management capabilities.

Therefore, we also don't refer to ourselves as European, but more as global because we are so large across the different geographies. And I think the third element maybe as to where we're going, is that also in this business, whether it's more on the wealth business, the recommendation business, or the investment banking and the equities business in which we are very large. We think that we have to use technology in order to get the business to the next phase. And we believe in technology as a differentiator, rather as an enabler. And as a consequence of that, we are really looking at how can we use technology to improve processes, to improve customer intelligence, as well as can we actually build new business models around digital? I think that's kind of the description of UBS as we speak.

Stefan Stalmann

Yeah. You mentioned a couple of times global, global bank, global businesses. Your biggest business is called Global Wealth Management. And it has benefited over many years, probably from seamless capital markets. You can service clients from different locations in different countries, and it seems that lately this trend has stopped. Maybe it's about to reverse somewhat.

Maybe we can start with Brexit. Maybe we can start with the Russian invasion into Ukraine. We can think about China and the relationship with the US. How do you look at this situation and what is your strategic response to a world that seems to be becoming smaller as opposed to lets say integrated?

Ralph Hamers

Yeah. It's, it's interesting that you say that. Our clientele really thinks as the globe is their scope for investments, right? So our clientele doesn't look at what I can do in my country or my region only. They're really after opportunities anywhere in the globe, in a specific sector, for example. Whether it's more public market or private market opportunities. So truly our clientele is one that looks for the opportunities globally. And therefore in the way we go about giving our advice it's very important that we know the opportunities for investing globally, because it may very well be that an Asian client wants to invest in Brazil. Brazilian clients wants to invest in the US and the US client actually wants to invest in Europe. And we see that all the time, by the way, because we are literally at that level with our clients.

So for us, from a client mindset perspective, we can't just say, "Hey, the world is now fragmented." So since you are an Asian client, we only offer Asian opportunities. That's not how it works.

So there, it doesn't impact us. Then I actually think that given the fact that we are of a global reach and we have activities globally, that we're less subject to the dangers of fragmentation than many others that are very local, and have therefore no room to grow, or are basically subject to a bigger threat than we are. Because in the end it makes our business very well diversified. So, and it's always with diversified businesses that on one side it's diversified, so it's less risky, but on the other side it's diversified. So every quarter it's something, right?

And so that's the second element there. And then thirdly, I think what you've seen over the last couple of years, and even with some of these uncertainties in the market, whether it's COVID, whether it's the war, whether it is the more geopolitical, or the trend to fragmentation, we see that the money flow. So the net new free generating assets for us continues to grow net new money. And the asset manager continues to grow as well.

And most likely that is not only because of the trend and the support in easing policies, but it is also, because we are close to our clients and uncertainty gets you closer to your client, right? So clients that are uncertain need more advice than clients who are certain. So if everything is very predictable, they don't really need an advisor. If it is less predictable, they want advice as to what is the better way to diversify the portfolio, or which is the next sector trend that they should invest in.

Stefan Stalmann

Right. Now, before you arrived about two years ago as a CEO of UBS, previous management at UBS would often say that our performance is maybe not quite as good as it could be because of geopolitical risks. So in other words, risk equals bad. But now we have had a period with very intense risks. COVID. Now the Russian invasion of Ukraine, and your performance is very good. Your returns are much better than they used to be before COVID.

So do we as investors and maybe you as a management team have to reassess, what's actually good? And what's bad for UBS is actually high volatility. Is this kind of environment good for you? And are you actually going to suffer if the environment settles down again? Or is there something else at work that we shouldn't look at it this way?

Ralph Hamers

Well, I think four or five years ago when we were reading our management books, they all talked about this VUCA world. And everybody thought, "Okay, VUCA world, whatever." I think now in the last two years, it's been pretty, pretty VUCA. Right?

So I think that's exactly the world that we're in. Now for us, that actually is positive from a couple of perspectives. So the first one is, as I just was explaining, is that uncertainty or cautiousness or wanting to be informed or picking up the right trend in an uncertain world or more volatile world is a phase in which clients need more advice rather than less advice. So for us, this is a great opportunity to be much closer to our clients than ever before. And if you're closer to your clients, you can actually also be more successful with your clients.

And that's what we've seen in the numbers. And that was what you were referring to. Secondly, if you look at what we, for example, do on the market side, in the investment bank, we are very much a house that benefits from flows coming through the system, because of the rotation in portfolios. And that is because we are not necessarily a trader, like with taking positions that benefit from volatility. But we benefit from flows coming through the system. That's what we do. Basically, we move stock from one to the other.

Right. And if you're a flow house and if you move stuff which has been happening, because in the beginning of the pandemic, you had massive rotation from one thing to the other, then at the end of the pandemic, everything was going to be perfect and rotating back to growth stock, for example, and then the war hit. And then it was again, back to value stock. So all of those rotations base means that there was a lot of moving, coming through our system. And if you are then the fourth largest global equity house in the world with the number one in Asia, number one in equity derivative here in the US, then you tend to benefit from that. And that's what you saw in the investment bank as well. So both the wealth business in terms of being much closer to your clients, as well as the investment banking business, in the markets business, the equity markets business have benefited from these environments. So if we would now enter into a world, which was just volatile, but not rotating, then we would benefit less in the market activities. That is absolutely true.

Stefan Stalmann

And have you seen a visible pickup of demand for investment advice from your clients. Have clients who had previously been self-directed? Are they coming to you and saying we need more structured advice and can-

Ralph Hamers

Yeah. So what you see is that, and again, I'm talking about different wealth bands here, right? So because the largest wealth clients, which is what we call the family offices, they are semi-professional right. So they don't come to us for advice. They come to us for product and opportunity and liquidity and leverage. But the average wealth bands. So up to like 25, 50 million, what you see there as trends in terms of what they want to get advice for is, can we be less exposed to the public markets, as an investment and be more exposed to what we would call the alternatives? And that's why I see a massive demand for alternatives coming through. And that's just in the first quarter, we did 9 billion in alternatives just in one quarter. Right. And that's a major trend coming through. And there you see that the demand is to invest in alternative opportunities, but also to co-invest in some of the underlying initiatives in these funds as well.

So clients are want to be closer to the actual investment opportunity, want to understand it better as well, because for the public stuff, you have research, but for the private stuff, you need to be much closer to the opportunity and get more advice. So there you see a big trend.

Stefan Stalmann

And if we look out longer term, I mean, we as analysts are often focused on what's happening next year at best and maybe next quarter, and maybe that's also true for many investors, but you as a CEO obviously have a different mandate. If you think about UBS on a 10-year view, do you think it's by and large, similar to what we have now in terms of what it does, how it's set up, where it operates, or could there be a much more transformational change maybe also driven by things like digitalization or other trends?

Ralph Hamers

Yeah. So if we just continue on what we have been discussing here, right. So I think the way UBS came out of the financial crisis was by being very disciplined in what to do in the different businesses that we had, which is we had an asset manager, we had an investment bank, we had the local bank in Switzerland and a wealth manager. And that's the way we were executing our activities. But the shift that we have gone through over the last year and a half, two years to see this much more as this is one UBS, where it is about growing as this ecosystem for investing. So basically the wealth manager and asset manager and what it is that we need from an investment banking perspective or an asset management perspective as capabilities to be successful in it, that is a bit of a change in the storyline and where we see the opportunities to grow and where we basically feel we are completely different from any other place.

So therefore over time, I do think that you can expect from us to be much more focused on clients rather than divisions and matching the capabilities to these clients, regardless of whether these are clients of the wealth manager or the investment bank or the asset manager. So we have UBS clients, we have UBS content and we have UBS capabilities. And the question is which capability is best or which client for, and at what moment? So that model will be different from the way we're currently organized. We are making steps to operate like that. But these are the first steps to it. So that's one change I foresee. The second change I foresee given the fact that we've said we really want to kind of continue to build that wealth business. This is our core business.

So for most banks, the wealth business is something they also do right? For us, this is what we do. So for us, it's completely the other way around. But if this is what you do, you can't come with a service concept that we have been successful with for the last 15 years, which is that if you have $500,000 with us already, you have $500 million with us, you get a financial advisor or a client advisor, depending on the country that you talk about. Hey, that's strange, no? Because the needs of a client with $500 million are generally different from the one that has $500,000, but we never segmented it from a needs-based perspective.

So what we have gone through over the last year and a half is basically we said - basically we see room for three approaches in general. The first one is the top of the top, which is the family offices, that have anywhere above a couple of hundred millions to billions. These are almost institutional wealth businesses and they need literally direct access to investment banking capabilities, prime brokerage, et cetera. So that's one approach. The second approach is building on what we currently have in terms of financial advisors and client advisors, which is okay everyone up to multiple tens of millions dollars. How can we know you better? How can we match make better in terms of what your need is versus the product that we have? How can we make our financial advisors more effective?

And how can we ensure that once you like our advice and you want to execute in our advice that, that execution is seamless. So there's a lot of digitization coming in there. And then the third segment approach is if you have an advisor as from 2, 3 million, there's a lot of opportunity in the market below the 2-3 million where you need a digital approach with a remote advice as a wealth management business. So that's the second step I'd say you would see us doing differently going forward. And then maybe the third thing that I

see is going to be different in the future than now, is access to alternatives, right? So I keep talking about the ecosystem for investing, because this is not just a linear model of wealthy clients wanting to buy public equity. That's a distribution model, or that's an execution model.

Now we truly believe that the demand for alternatives is increasing so fast that linking the right alternative product providers that get a view on what our clients want to get that much closer in the way we manage it to grow that because that's where a lot of the demand is. And I think this is not a hype. This is really where the next stage of investment is going. The private markets business it's growing very fast, but in order to manage it well, you don't want to be a distributor of a product like November is the month of the infrastructure funds. It doesn't work like that. Huh? So it's, I mean, if a client has appetite to invest in infrastructure, then there should be funds that are open to tap at moments.

But in order to manage that, you have to be much more directing this as an ecosystem rather than, okay, there is a fund, okay, are we going to distribute it? That's not how it works in the future, in my view. So for that you have to be much closer with your, what we call our contributors, which are the third party fund providers. And you have to understand your clients much better, where a lot of artificial intelligence comes in.

Stefan Stalmann

Is it a competitive advantage for you to be basically the largest global wealth manager in your access to these providers?

Ralph Hamers

Yeah.

Stefan Stalmann

Or could it be also the opposite of it, some point you're getting too big for these suppliers to actually be able to put enough into your pipeline?

Ralph Hamers

Oh, I think it's actually competitive advantage because if you're in the market with private market opportunities, so you do a public offering because it's public and therefore you have access to a huge market, which is very simple, right? But if you create private market opportunities, you want to be pretty certain that what you are putting together is going to be successfully... Is successfully subscribed and distributed. And for that, you have to be closer to where the market intelligence is. And the market intelligence then is whoever rents the largest wealth manager, that in the sense, the preferences of its client's best, that is the market then for them, in terms of when to come with a fund, how to distribute the fund, what the balance between return and impact should be, because there's a lot of impact in part of that as well. So, so I think it's actually a benefit to be large, and to be global.

Stefan Stalmann

Is there almost a possibility there for you to internalize in all of these flows? Because if I think about private equity, you must be dealing with a lot of buyers and sellers already, right?

Ralph Hamers

No. So that is true. That's also where there is quite some interest there, because if you have that, then you can build a bit of a market there. So you can actually bridge liquidity moments for investing in it. Or you can bridge liquidity moments when clients want to get out, but it is not the moment yet for the fund to dissolve itself right? So that's where you can bridge. That's where you can make then an internal market. And that's exactly what I mean, if you direct as well, and you have the right intelligence, one side is not only about the new product that you offer your client.

It is also by supporting your clients in liquidity moments, either paying into the fund at a certain moment in time later, or actually getting out of it and being able to place it with another client at that moment in time. That's exactly what we're building.

Stefan Stalmann

Yeah. Ralph, we mentioned earlier the size of your U.S. business, I think in terms of revenues even bigger 40% or so of your group. You're already using the U.S. dollar to report. You just made a relatively sizeable acquisition in the U.S., you have a chairman who is now joined, coming with a big background in the U.S. business. So for all practical purposes, you look increasingly like a U.S. bank. Is that just a casual, random observation? Or could there be at some point a moment where you say we should rather list in the U.S. because it gives us a totally different standing, market access environment, if you will, or is it just pie in the sky?

Ralph Hamers

I think if you look at us as to who we are and what we do, basically we have, from that perspective, three domestic markets, I'd say. So it's the U.S., it is Switzerland, and it is Asia. I mean, we've been in Asia for over 40-50 years and supporting the developments there as well. So we really regard Asia as... given the number one position we have as a wealth manager, and the equities as well, as really our domestic business, our home business.

Having said that when we developed our strategy a year and a half ago, two years ago, when we were looking at, okay, we're the largest wealth pools currently, and where do we see the fastest growth? Clearly the largest wealth pool in the world is the U.S., and Asia is second. But Asia is growing faster than the U.S., but the U.S. is growing far faster than Europe.

So basically in our strategy, you see that it's very important for us to grow in Asia. And it's very important for us to continue to grow here in the U.S.. Now, if we then look at what we're currently doing in the U.S., we have a very successful wealth management franchise, we have a very good asset manager. The question is how will we then be able to grow? So there's a couple of things that we're doing. First is the whole financial advisor network. We're a wirehouse basically here in the U.S., right? Is how can we make sure that we support these financial advisors better? How can we make sure that they move up the wealth bands so that they focus on wealthier clients rather than less wealthy clients, because it's an expensive way to distribute your advice and your product, right? So it only is economically viable as of a certain minimum of wealth and the management with your clients. So we're investing heavily in the infrastructure that supports them, the

intelligence that they need in order to be more predictive with their clients in the advice they give. That is one area of investing.

The other area of investing is that, and this is what we have started a couple of years ago already, is that we are supporting them with what we would call non-compensable business, which is the banking business, mortgages, cash management, et cetera, et cetera, et cetera. So we're investing in building a bank next to the wealth manager for those wealthy clients to be able to take a mortgage with us, to do their cash management business with us as well. And that makes it more attractive for the financial advisor because he can basically advise in a broader extent. It is more attractive from our perspective because it gives us exposure to interest income next to management fees and transaction fees as well. So, that's the second part of our plan.

Then the third part. And just to give you a couple of numbers, our deposits have more than doubled in just three years in 2019 to now, to 113 billion. Our mortgages have more than doubled as well in the same period to 25 billion. And we want to continue to grow that. And the third area that we're investing in is that we see this huge opportunity here in the U.S. to focus on the wealth band, up to 2 million. Which is a wealth band where the financial advisor is less economical. Which is wealth band that does represent 16 trillion, 16 trillion of assets under management in the U.S. alone. And if you make the analysis, part of that business, part of that pool of wealth is underserved currently because of the character of the clients.

The characteristics of these clients are that they're pretty reactive. So they don't necessarily want a financial advisor that calls them on a regular basis. But they also don't want to be digitally approached only, they have to figure it out themselves. They don't trust that either. So they need a bit of a mix of the two. You have a digital first offering where they can kind of look through their wealth, their wealth build up. They can play a little bit with some scenarios as to what it would be, but they would need some kind of a confirmation in the end before they take the decision as to how they invest. And that is what we are developing organically. Now, when developing it organically, we ran into this opportunity called Wealth Front, which has part of this solution already, which is, it is already a wealth manager, digital only, proven, good user experience, 28 billion of assets under management. And for us, that's a nice opportunity to accelerate our path, to focus on that opportunity.

That's one. We would have to add the remote advice to it, which is what they would do then. And that gives a couple of positives here. So the first one is that now we have a digital opportunity and it's already proven, and it generates more and more assets under management in itself. Second, it will give us an opportunity to grow in what I just called the segment of the reactors, which is about 50% of the 16 trillion here in the U.S.. So 6 or 8 trillion. And since we have 2 million clients in the workplace wealth offering that we have, with every liquidity moment in our workplace wealth business, that we have, they actually wire the money to their bank because we don't have a solution for that segment.

Whereas now we have something on offer there. And so this gives us an exposure to what we would call the H.E.N.R.Y.s, as we call it. So "high earners, not rich yet", which is a feeding ground for the wealth bands that are higher than the 2 million. So basically you grow with that. So, and that's how serious we are about the U.S. market. Now, does it mean that we should just kind of become a U.S. bank? No, I don't think so. But what I think is important for everybody here to understand is that we are not a European business. We're very much a U.S. business and it's very much the focus of our growth and an Asian as well.

Stefan Stalmann

And maybe following up on the Wealthfront and the lower affluent business opportunities in the U.S., how should we think about this in financial terms? Is it more like this is a break even opportunity at worst because

you already have a business that provides some level of maybe earnings and revenue, or is there actually a bigger upfront investment required because you also want to aggressively market that at some point, and there's a lot of investment required into I.T., et cetera.

Ralph Hamers

Yeah, well there will be certainly investments in I.T. required, but these are not big amounts. More importantly, so when we close the deal with, Wealthfront is that we let them do what they do well. Because what they do well is they have a very good digital wealth offering, wealth management offering. The reason why the team like to work with UBS is because wealth management is our core business. Rather than going with any other bank where wealth management is a side business. This is our core business, that's why these guys wanted to team up with us rather than with anyone else. That also means that if you want them to continue to be successful and grow in their current segment, but also add the other opportunities, yeah, we would have to invest in them and we would have to support them in building the remote advice as well. But at the same time, it is a proposition that you would need to have to grow for a while before you start looking at the P&L because it does need scale. It does need scale.

Stefan Stalmann

And have you had any reactions yet from your FA network about how they think about this additional channel, basically?

Ralph Hamers

Yeah. It's funny that you ask. I think that our financial advisors in many cases, in terms of the emails they send to me, they're very proud. They're very proud for many reasons here. So the first one is they see there is a huge commitment to the U.S.. Because this is not only about wealth, this is also about that we're really investing in supporting them in the artificial intelligence that we can support them as well. We're building out the bank to support them as well. And then they see that we're really serious about being a wealth manager rather than many other things by acquiring Wealthfront, that's one.

Second, they do see that, that opportunity is one where we could generate the potential for them to harvest on which basically, what does it mean? Just what I was saying is that people were high earners, but not rich yet are not very attractive to the financial advisor, but they're attractive to the firm as a whole, and they're a good segment to grow. Because if they do grow in their wealth, it is a pretty natural movement then for them to be offered to financial advisors, to pick them up as of a certain wealth band. So it will help them also with new clientele if we manage it well. Because we don't see as competing there, it's really for different wealth bands where we have the different approaches. So most of the emails I got was proud to see that we are serious about the U.S., that we're investing in wealth management in the U.S., and, it's a prominent deal. Right.

Stefan Stalmann

Okay.

I think I'm going to take one from the audience and I would say, please keep them coming. We have a couple of questions on the theme of cost inflation. Inflation more broadly is obviously in topic and it has become

maybe worse in recent months for various reasons. How do you look at that from the UBS perspective? How do you manage that pressure?

Ralph Hamers

As we speak, it's certainly one that we see as a pressure here in the US, a bit in Asia, not so much, but certainly in the US, bit in Asia and in the investment bank. That's where we see it.

It's real and we'll have to manage it. Having said that we have a large exposure to the Swiss franc as well in our cost base, where there is far less of a inflation threat there. When we announced our strategy, we indicated that we had a program to save around one billion in our cost structure, which actually takes quite some of these inflationary pressures off and the savings that we see there. From that perspective, we feel that we can manage the challenge here but we have guided that our costs would continue to grow as well. We do see sufficient scope to find measures to cope with the inflationary pressures. That's on the cost side.

Stefan Stalmann

Including also, maybe, slowing down investments to...

Ralph Hamers

Well, that's the tactics, right? The tactic, depending on where the pressures are, you can always... If you feel that some businesses are not developing as good as you were expected, clearly you can then also from a technology investment perspective, you could maybe delay some of the growth as well, if you feel the growth is not there. Absolutely. But again, we manage it as one. You have inflationary pressures on one side, you have plans to grow on the other side, you have technology investments on the other side.

Clearly if some businesses don't make sense to grow as fast anymore because the revenue opportunity may not be there. I can't think of one right now, but if that were the case, clearly you would dial back on some of that in order to manage this cost pressure. The cost pressure is real, but we feel we're less exposed to it than, specifically, the US banks for example, who are like 80% concentrated in the US in terms of their cost structure. That's not the case with us. The other thing maybe for... I mean, given the fact that we're a wealth manager in a large part of our... For example, cost structure is also paid in variable. If the commercial success is not there in revenues, automatically the costs will be corrected on the payout.

Stefan Stalmann

Another one on the topic of interest rates, rising interest rates, the topic du jour, clearly. You have given very good disclosure on what you think will happen to your net interest income in the case of rising rates. Maybe there's less value in going through that again, but a level of investors lately wanted to talk about what the secondary effects are of rising rates. Whether that's about economic growth, whether that's about client leverage, whether that's about your size of the deposit book and these kind of things. Could you maybe talk a little bit around what the impact of rising rates would be on, on those metrics as opposed to just directly NII?

Ralph Hamers

I think the impact currently is, and this is not only a rising rates, it's about the state of the world and uncertainty in the world. There's clearly a uncertainty around investing at this moment in time, more in public markets than anywhere else. There is caution, that in itself is generally... Will come back to a moment. There is more certainty and then clients will start to invest again, but temporarily it does impact client behavior. With that also... Income and flows going into the market. Client demand for investing or for investments is muted because of the rising rates and seeing where this will land and the general uncertainties as well. You see some portfolio changes that you would see some deposits going into money market, et cetera, cetera, et cetera.

That's what you would see as well. Overall, given the clientele that we have in the top end, this is a moment for many given the uncertainty. With that, they've given the adjustment of valuations that they see it as an opportunity. Specifically, if it comes to a private opportunity to buy a company or to join other family offices, and buy the dip, you would say, in the public market, but buy the dip also in the private market perspective, from that perspective, and then there is still a huge underlying trend and demand for longer term alternatives. That's where money keeps going. That's what you see in terms of the effect on our business factor, our business.

Stefan Stalmann

Great. Maybe a question on capital management? You are returning money quite generously to shareholders these days, and five billion give or take of share buybacks targeted for this year. I think you are at more than half of that already as we speak. Also, it means that if you continue that pace by year 12, you have gone private, there's not going to be any UBS share anymore.

Ralph Hamers

Yeah.

Stefan Stalmann

That's not going to happen. What's going to give, will you at some point ramp up dividends or maybe use more for M&A, or is there anything else that squares that circle?

Ralph Hamers

Maybe for the audience, to the extent you don't know UBS? We have a very low capital-intensive model. We generate capital anywhere between like six to eight billion, depending on the year. At first, it is very important first to look at how can we make sure that we have a sound balance sheet, sound capital that can weather stress, right? It's important. We guide on our core tier one range of 13%. We're currently at these, at least at the end of the first quarter we were at 14.3. We have a cushion there already of more than four billion, which is surplus capital. The second area for our use of capital would be the support of the organic growth in businesses that would need capital. If you then just go through our businesses, what are the businesses that use capital, it's clearly the Swiss business in terms of supporting some corporate loans, or in supporting the mortgage book.

It is the US business where we're growing the mortgage book. It is the, what we would call the global family and institutional wealth business, whether there's more leverage in that business as well, but that is de minimis. It would use in a year 10 to 15% of the capital that we generate. We have a lot of surplus capital

there to distribute. If we would see opportunities on the M&A side, because you put it in I'll come back to dividends as well, that would accelerate the growth, or would accelerate the scale in strategic areas like the US for example, or would give us the skills in either alternatives or sustainability, et cetera, et cetera, et cetera, which are key trends in asset management. We would consider those and use the capital for those. These are not transformational deals, but that would not be a surprise. That would be really at the bull's eye of the strategy, but we would do that to accelerate the organic plan like we did with Wealthfront.

Given the fact that we generate this capital every year, still, we pay a handsome dividend, and then we have the share buybacks. Now, there was always this discussion as to how much do you do in dividend? How much do you do in share buybacks? First, it is good to have the flexibility. Second, is that we still feel that although we're more than one price to book that we are under valued. We think is still very attractive. If you compare our price to book with the US players and the low capital players in the world, that we have quite some re-rating to go. Therefore, we feel that share buybacks are still a way to create value for our shareholders. Paying more in dividend is a very inefficient use of our capital.

The reason for that being is that clearly it distributes the capital, but it takes 15 months to distribute it because we reserve it outside of capital. We can't use it and then we need the approval and then we pay it. For the maximum term is like 15 months almost for a dollar that we make at the beginning of the year, before we pay it out, which is capital you are not using. It's not the most efficient way to reduce or distribute capital, but clearly we can play with it. On the dividend side, we have indicated to pay a progressive dividend from the level where we are right now. As long as we feel that in comparison to some other players, either low capital intensive players or US players that were undervalued, we do see a share buyback as an attractive way to create value.

Stefan Stalmann

Great. I think the applause that came through that door is a reminder that we are probably also running against limits of our time.

Ralph Hamers

Very good.

Stefan Stalmann

Thank you very much Ralph.

Ralph Hamers

Thank you.

Stefan Stalmann

Thank you so much.

Cautionary Statement Regarding Forward-Looking Statements l This document contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance, statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development and goals or intentions to achieve climate, sustainability and other social objectives. While these forward-looking statements represent UBS's judgments, expectations and objectives concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. Russia's invasion of Ukraine has led to heightened volatility across global markets, to the coordinated implementation of sanctions on Russia and Belarus, Russian and Belarusian entities and nationals, and to heightened political tensions across the globe. In addition, the war has caused significant population displacement, and if the conflict continues, the scale of disruption will increase and may come to include wide-scale shortages of vital commodities, including causing food insecurity. The speed of implementation and extent of sanctions, as well as the uncertainty as to how the situation will develop, may have significant adverse effects on the market and macroeconomic conditions, including in ways that cannot be anticipated. This creates significantly greater uncertainty about forward-looking statements. The COVID-19 pandemic and the measures taken to manage it have had and may also continue to have a significant adverse effect on global and regional economic activity, including disruptions to global supply chains, inflationary pressures, and labor market displacements. Factors that may affect our performance and ability to achieve our plans, outlook and other objectives also include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA) and leverage ratio denominator (LRD), liquidity coverage ratio and other financial resources, including changes in RWA assets and liabilities arising from higher market volatility; (ii) the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (iii) the continuing low or negative interest rate environment in Switzerland and other jurisdictions; (iv) developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and increasing geopolitical tensions, and changes to national trade policies on the financial position or creditworthiness of UBS's clients and counterparties, as well as on client sentiment and levels of activity; (v) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (vi) changes in central bank policies or the implementation of financial legislation and regulation in Switzerland, the US, the UK, the European Union and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, net stable funding ratio, liquidity and funding requirements, heightened operational resilience requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS's business activities; (vii) UBS's ability to successfully implement resolvability and related regulatory requirements and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, or other external developments; (viii) UBS's ability to maintain and improve its systems and controls for complying with sanctions and for the detection and prevention of money laundering to meet evolving regulatory requirements and expectations, in particular in current geopolitical turmoil; (ix) the uncertainty arising from domestic stresses in certain major economies; (x) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers adversely affect UBS's ability to compete in certain lines of business; (xi) changes in the standards of conduct applicable to our businesses that may result from new regulations or new enforcement of existing standards, including measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (xii) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses, potentially large fines or monetary penalties, or the loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA, as well as the amount of capital available for return to shareholders; (xiii) the effects on UBS's cross-border banking business of sanctions, tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (xiv) 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; (xv) 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; (xvi) 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; (xvii) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xviii) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, data leakage and systems failures, the risk of which is increased with cyberattack threats from nation states and while COVID-19 control measures require large portions of the staff of both UBS and its service providers to work remotely; (xix) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS's operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xx) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS's ability to maintain its stated capital return objective; (xxi) uncertainty over the scope of actions that may be required by UBS, governments and others to achieve goals relating to climate, environmental and social matters, as well as the evolving nature of underlying science and industry and governmental standards; and (xxii) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the US Securities and Exchange Commission (the SEC). More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2021. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

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