UBS CFO speaks at the Goldman Sachs European Financials Conference

Q&A discussion
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Speakers: Kirt Gardner, UBS Group AG CFO and Jernej Omahen, Goldman Sachs head of European banks research

Jernej Omahen:

Welcome to our next session and I hope you had a good lunch.

I am looking forward to the upcoming discussion with Kirt Gardner, the CFO of UBS, true to his word as he told us last year in Madrid that he is going to come back next year. He is here with us today, thank you for that. I'll ask you to confirm for next year at the end of the session as well.

The banks that I covered fall into three categories – there is the group of banks which is still in various levels of deep distress, and which have big question marks over their business models; in the second group you have banks which are not in distress per se, but are still in the midst of substantial restructuring efforts. And then there's the third sub-segment of my coverage, which is small, and is constituted of banks that are neither in distress nor in the midst of a major restructuring effort but are focusing on what banks should be focusing on: maximizing the revenues, maximizing the profits and maximizing the returns. And I'm obviously please to say, or state the obvious, that UBS is one of those banks.

I think that before I start, I'd like to obviously say: Kirt, thank you for flying over from Switzerland or from London, I don't know where you flew over from. Thank you for being here, I hope that we're going to make you feel welcome.

But let's kick it off with the best business that UBS has, the business that all other investment banks wished they had, 2 trillion plus wealth management or private banking operation. You have announced a major…well, major…a restructuring, or streamlining effort. Is there anything new to report? What are the next milestones that we should be looking out for?

Kirt Gardner:

Yes, first of all, thank you for inviting us back. It's always a delight to be here at your conference, and I must say you host a good conference, very productive for us to come.

To me it is important to dispel a little bit of expectations, because you refer to it as a 'major restructuring'. And it is not at all a major restructuring, it really is just an evolution in the path that our wealth management business has been taking.

Also, I think there has been a little bit of a misnomer – when you think about bringing two businesses together, you often think about a merger and acquisition, where there is substantial synergies, cost savings, and they happen relatively quickly. Think about the trajectory of our businesses. On the one hand, our Americas business was transforming itself after the crisis. Recall, it was losing money and it repositioned itself to begin to make money with an initial target of a billion a year.

Now it's well surpassed that. Meanwhile, our international business was going through a cross-border process where the industry was becoming completely transparent.

And we announced that we substantially completed that process at the end of last year. We also moved from a federated to a much more globalized consolidated model.

Both businesses had been positioning themselves in the ultra segment. So the businesses that have been coming closer together already over the last number of years – this is just another step, so I think as you would expect in that evolution there should be subsequent benefits that will come of bringing the businesses together.

Now having said that, I think it's going well so far. And there are couple of general areas – I think the area that I am most excited about, is our most important segment, our most wealthy clients, ultra. It's our ability with the businesses together now to actually serve our clients as global citizens.

In other words, we can take a U.S. person – and that business has been very U.S.-centric in general for all the U.S. persons reasons. But we can now provide an offering that could cater to their needs, perhaps if they have a Chalet in Switzerland, or if they have an apartment in London, and so we can seamlessly provide them with a global offering. Similarly, we can take a wealthy Mid-Eastern that might have an apartment in New York and we can provide them with a U.S. offering.

So for us the conversions of our model in servicing our ultra clients is a very important part of this. And we've already brought our Latin American businesses together. So now we're really the only firm that, for a Latin American client, can offer you the ability to book in Switzerland or to book in the U.S. in a very seamless way.

Now naturally in addition to that there are other areas around our propositions. We've actually taken our international discretionary mandate

engine and we've made a number of offerings available to our U.S. clients, some of which have already been deployed.

There'll be some streamlining of functions, as you would expect. So I think in sum, this is an evolutionary process and we'll continue to announce benefits as they emerge.

Jernej Omahen:

So staying with the U.S. operation for a while, within wealth management, so Q1 was very strong – net new money-wise, and some of the previous quarters less so – how should we think about the performance on the net new money side of the equation for the U.S. in the future?

Kirt Gardner:

Yes, so if you look at the Americas business, and here's where there was an initial transformation to actually restructure the business and turn it into profitable, profitability, now when Tom came in and he thought about what's going to drive the next level of growth to that business, how do we get to 2 billion? – He very much concluded that it was going to be focused on the productivity of our same-store existing FAs. As you know, in this industry recruiting is such a major part of the dynamics of that industry, in that it's been probably the most important growth lever that U.S. brokers have had, and it's a very costly growth lever.

And so I think Tom appropriately said, I want to refocus away from recruiting. In doing so, I am going to actually increase our pay-grids to our FAs, and I'm going to do it in a way that encourages them to be more productive. So if you're more productive actually, your payout levels are higher.

At the same time, we started to wean our sales off of recruiting. So what happened last year, you saw an increase in compensation, you saw outflows from this adjustment process. Our FAs were just coming up the productivity scale, and I think that all came together nicely for us in the first quarter.

On the one hand, from a P&L perspective, our employee forgivable loans were down 20%. We saw about a 150 million run rate in benefits from these lower amortizations.

We fully absorbed the increase in pay-grades year on year. And you saw over 7 billion of inflows. The most productive quarter we've ever hard for our same-store FAs. And so we should continue to see that evolution as we go forward.

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Caveat for the second quarter, seasonally we do see tax outflows [in the second quarter], and we will see higher tax outflows this quarter, because of the new U.S. tax reform. This is going to drive higher tax payments.

Jernej Omahen:

Right, and scale is everything in this business. You can either grow as UBS is succeeding to organically, you can look around and see if there is anything to bolt on or there is something more meaningful to acquire – how is your thinking about that?

Kirt Gardner:

Well, naturally we always look, as the largest wealth manager in the world, we look at anything that comes to market. And when we think about that, strategically where we would like to inorganically provide some additional scale, it's certainly in our European markets, our onshore markets where, in parts, we are subscale.

It's in some strategic markets like Brazil and Mexico. I mean if you look at what we've done recently, we've made an acquisition in Italy. We've made one in France, we just completed an acquisition in Nordea's business in Luxembourg. In fact, you may have helped us with it. In addition, we've made an acquisition in Brazil.

And that for us is going to continue to make sense, and we'll be very active in that part of the market. Now having said that, in areas where we're already large – if you think about our scale, in any one year we might generate 50 billion of net new money – and so if we're going to target an acquisition of 10 billion that has all of the M&A requirements, it has to be in a strategic market where it makes a difference for that market. Because overall, it really doesn't move the needle. And it's rare that you see larger-scale players come to market. But we're open.

Jernej Omahen:

This conference takes place over three days and we've had the fintech sessions yesterday – it's very interesting to contrast what was said yesterday, which is, you know, alarms ringing on potential disruption in areas where fintech companies could cannibalize bank revenues – but then we had a fascinating session here earlier in the morning, with the Executive Chairman of Santander, who basically said: "Look, you know, I am able to process a payment at a price which is lower than the leading fintech competitor."

So, what is the risk to technology for UBS? I mean we all know that you considered, and you've essentially highlighted IT investment as a key strategic priority, most banks are – is technology an opportunity for you?

Does UBS have scale to invest in IT in a scope that others just can't keep up with, and it gives you an even more sustainable advantage?

Or do you also see risks from the fintech part of the equation?

Kirt Gardner:

Naturally, if we look at the industry as you said, we've been very direct in stating that we feel that technology will be the force that will shape our industry over the next ten years or so – the force that has shaped our industry over the past ten years has been regulation and transformation – and that dynamic is changing.

And so therefore, from our perspective, if we're not investing consistently in technology, we feel that we're not going to continue to maintain our competitiveness.

Now naturally, as we think about our core business in global wealth management, there's been a lot of publicity around robo-advisors – but if you're looking in aggregate, at what robo-advisors have achieved in terms of total invested assets – and where those invested assets have come from – it is a small fraction of the wealth industry.

And all of that momentum is in the lower-affluent end of the industry itself. When we think about what's meaningful and important to our very wealthy clients, yes, asset allocation is one thing, something that can be replicated by robots, but what's much more meaningful is the advisory content of the relationship. And that tends to be very emotional. People are emotional about their money. And I think wealthier people are more emotional about their money.

And solving problems like what is their legacy, how are they are going to think about transitioning wealth to the next generation, helping them think about things like philanthropy, or advising them on investments in sustainability, helping them to network and connect with other wealthy individuals – globally – or providing advice in non-financial assets, like wine, automobiles, 'old-timers' I guess as they call them here, potentially art – all of that comprises a much more meaningful relationship that, frankly from our view, robots will not be able to replicate.

Having said that, what's important for us is to embrace fintech technology and ensure that we're incorporating it in a seamless way into our offering, so that our clients can continue to interact across those channels.

Jernej Omahen:

So, SmartWealth, in this context, I guess, it's a highly technology-dependent project. I saw an advertisement on the underground the other day, which is not the usual place to advertise for a private wealth project, I

guess – how should we be thinking about that? I guess that got everybody intrigued. Because it's almost extending a private banking service, not in its full capacity, but extending a private banking service to people that would normally, I guess, just be slightly larger depositors.

Kirt Gardner:

So, I think if you look at our platform, we obviously have the largest wealth platform in the world, and the content that we've invested in developing in the capabilities in terms of being able to create powerful mandate discretionary offerings, I mean that's one we built for our ultra and our high-net worth segment, but also it's one that is certainly relevant for all affluent clients.

And so for us the strategic opportunity – if you think, a client adjacency, is how do we expose ourselves, and how do we leverage our scale into the affluent segment?

And we've been looking at a number of potential technology-driven offerings. Because clearly the way to do that is going to be through digital. It's not going to be through our traditional CA channel, because the cost to serve won't allow it.

And we've launched several of those. So if you think about the broad scale, it's all the way from low tech, for example what we do in Taiwan, is we're able to manufacture advisory and discretionary mandates, we perform health checks, and therefore we identify areas that our clients should invest in – and we actually advise them through the old-school e-mail channel. And then they can either act through calling our call center, or else through our direct inter-person interaction – there's no digital channel yet, but it's been unbelievably successful, we're by far and away the largest international wealth manager in Taiwan.

If you look at the other end of the spectrum, we just launched something that's called Advice Advantage. So we took the SigFig technology that we invested in, and this is actually quite unique – it's new to the U.S. but not new to Europe – it allows a client to aggregate all of their assets. So they get a view of all of their assets they have across all the banks that are available, and all the investment managers. And we then assess those assets on their behalf, and we tell them how they should be invested, and where they are inappropriately invested, and then we advise them what an appropriate portfolio would look like, simulated, using our CIO technology – but benefiting from what SigFig does in terms of its robo engine. And then, what that does, it allows clients – if they want it – to easily bring assets into UBS. We just launched that and the minimum investment requirement is just 10,000 dollars – and eventually we'll role that across all of our FAs.

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And we have Smart Wealth, which we launched in the UK. And that is one that is purely a mandate offering, and it targets a minimum investment of 15,000 pounds.

Now the other area that we're looking at is potentially entering China. And there it might be through partnerships and we think about e-commerce offerings in China.

So, across this whole portfolio what we'll assess is what works well, what can we learn from the different deployments, how do we incorporate that into what we think will be a compelling future strategic offering for the affluent segment.

Jernej Omahen:

And a client with 15,000 initial investment is a profitable client?

Kirt Gardner:

Can be, not initially. And that's part of the problem. Because the economics of the e-commerce business – and this is a channel as a bank – is, immediately a client, you know, is not profitable, because you have to invest a certain amount to bring a client in, so you really have to look at the business from a net present value standpoint.

And the question always is, how much patience will the market have?

But you look at any of the direct offerings, and that's the nature of the economics.

Jernej Omahen:

So, moving away from wealth management towards the investment bank, which generates still a disproportionate amount of discussion on UBS, despite the fact that it doesn't make a disproportionate amount of profits. […] When we look at the investment bank, and I guess the equities business is doing well, the advisory business is doing well, the fixed income business I think is very difficult to figure out what the run-rate revenues for that business would be – are you able to share with us how you think about a normal year for (FICC), or what is baked into the 15% target that you have? Or how, first of all, you think about the investment bank?

Kirt Gardner:

Well, I think very clearly what's important is, while we constantly get questions, I think there's a view that somehow we're going to divert from our strategy – so I feel like I'm always being challenged, Sergio is always being challenged: Are you going to flinch? Are you going to feed it more? Are you going to do something differently? And the answer is: "No, we're very, very consistent to our strategy. We have a unique investment bank

that has exited a lot of the structured, high-capital intensive parts of the business – so it's capital-light, focused more in the institutional markets, where it chooses to focus it tends to be top-tier, and it has to earn an attractive return."

Over the last five years, its return on attributed equity has been 24%. In the first quarter, it grew 20% in USD terms, so it outgrew the industry. And it generated 25% return on attributed equity.

And also, we have defined its footprint. It will consume up to a third of our capital resources. And we define that because we think that's sufficient resource for us to maintain the identity of who we are – primarily a global wealth manager – but yet it's sufficient capital to achieve the right level of scale, where it chooses to compete with its capital-light model, and to be relevant for GWM.

Now in the quarter, the performance was driven, as you say, off of our equities business, particularly well-positioned – and we had a particularly good CCS, including advisory quarter. FRC has struggled more. Last year, volatility levels at historic lows – has been challenging for that business, because it does require volatility for its institutional clients to trade, and as we do not hold inventory – now, prior to last year we were trending towards and above 400 million in revenue for the FRC business.

So from my perspective, above 400 million is kind of good minimum scale for the type of FRC business that we have, and we were operating around there for something like 6-7 quarters in a row.

So that's the level of revenue we'd like to see in the trajectory, we'd like to see in that business moving forward – and within that, naturally the strength of that business is our FX franchise.

Jernej Omahen:

So, I'm going to ask one last set of questions and then we're going to go to Q&As. So, I'll ask you to have your questions ready.

So, what's wrong with the following logic: We've got UBS, and if we think about it in business line terms, we have a private bank or a wealth management business, we have an Asset Management operation – we have a Swiss commercial and retail bank, and then we have the investment bank, broadly simplifying – there's pure play comparables for each of those business lines. And the pure play comparables in private banking are going to make north of 20% returns, Swiss private banks. I guess we now have accounts for most. Asset Management firms the margins are shrinking but the returns are still very high, call it anywhere north of 15%.

Then we have the Swiss retail and commercial banks – according to the Swiss Central Bank, those are broadly 11-12% return on equity businesses on a stand-alone basis.

And then we have the investment bank, where the U.S. pure plays make anywhere from 8-12% returns. We take those and we look at UBS' return target, which is 15%, as you define it, or as the bulk of the market would tend to look at peer group – broadly 13% return on tangible equity.

Is it wrong to say that there is upside risk, or upside potential to UBS' target?

Kirt Gardner:

Yes, our most important metric and performance target is, it's our return on the shareholder resources we deploy across the business – and when we look at our target of 15%, first of all, in an absolute sense, we think that's an attractive return level.

We would probably assess our cost of capital to be somewhere around 9%, so it nicely exceeds our cost of capital. It should drive us trading well above book value. And also, when we think about that target return, we also think it's quite attractive on a relative basis, when you compare it to competitors. It's the highest.

Now in terms of what we believe we should be able to deliver – and the reason, of course, we exclude the DTAs is because we uniquely have a high proportion of DTAs, I think if you compare returns, if you look at U.S. banks, tangible equity and regulatory capital is pretty much on par. You know, we have DTAs and other accounting matters and so our shareholder equity is quite above our regulatory capital. So if you look at the quarter, for example, we returned 17.8% on ROTE excluding DTAs, or 18% on our reg capital, and we think as we amortize our DTAs over time, obviously those two will converge.

Now if we think about, as you said, the combination of those businesses, we have all of that, but on top of that right now, we still have an inherent level of complexity around our regulatory structure, subsidiaries, that adds a huge cost burden that we have that others may not have.

And that is something that does detract overall of reaching a level of returns that otherwise would be possible – however, still, if you were looking at the returns that we generated because of our capital-light model, we had a 74.4% efficiency ratio, 17.8% return on tangible equity – so we do believe that as we get our total efficiency ratio down below 75%, which we believe we will over the next 3 years, then operating and delivery above 15% is certainly something that we would expect and aspire to do over the next 3 years.

Jernej Omahen:

Perfect. Okay, so let's turn to our investors here and see who wants to ask the first question.

I just pointed you out, …, you always kick it off.

Question from the audience:

First of all, congratulations as I just learned that my paper statements are now coming in electronic format, but I still pay the same 5 Swiss Francs every month for them, so I assume that has a very high contribution margin.

On the wealth management side, I hear you on how the advisory is changing, but isn't, the real problem is the robo advisory will provide huge amount of transparency on the fees and do you believe then that the other new emerging services will be able to compensate for that pressure on the fees over time?

Kirt Gardner:

I think you are absolutely right, and frankly, it's not just the robo advisor – I think if you look at the wealth management industry overall, it is now a transparent industry. I mean it's remarkable over the last 5 years, we've gone through an industry that was veiled in secrecy, and that was at the core of its proposition, to one now that is fully transparent in many respects: that means transparency to the regulators and to the tax authorities, as well as transparent back to our clients. If you think about MIFID, if you think about where the U.S. is going, what used to be the DOL rule [corrected] and is actually now sitting within the SEC, the level of transparency required to convey back to our clients around fees that we charge, and also in important areas like the execution levels and what we pay for execution on their behalf, the ability to have to be able to demonstrate best execution – we are already there in terms of transparency, so I don't believe that the robo advisors are actually going to provide any incremental transparency to what already exists within the industry.

Now having said all of that, I still stand by what I highlighted: I do still believe that there is a degree of inelasticity overall on our pricing, because the value of the other aspects of the relationship are held so highly by our clients that they are willing to consider an all-in fee, and they look at our relationship not transactional – and I think fees inform a potential for switching, when you have a relationship or a product that's built around the transaction itself, that's when you are going to get shopping, but this is not a transaction, this is actually relationship. And as long as we're able to continue to deliver a very high quality level of advice, a high service level

that includes both what we do through our CAs and also through technology and investment, and all the other aspects that I talked about – we are the global leader in philanthropy, we run a forum for a billionaires next generation, where we get literally a couple of hundred billionaire next generations that come to university with us in Zurich every year – what we do around sustainability forums, and I could go on, all of that to me is a value proposition that is not replicable certainly by a robo advisor, and very hard to replicate any way if you are not already established in the industry.

Question from the audience:

just building on the last question, on the inelasticity you talked about in the wealth management division with the relationship between the advisor, do you see that changing in any way as those assets transfer intergenerationally?

Kirt Gardner:

I think the intergenerational transition is really a critical issue for us and the industry.

You know, and certainly this has always been the case actually, it's not something that's new – if you naturally look at the average age – of our clients, notwithstanding some of the more nouveau unicorns, it is well into the 60s, because those are the individuals that have all the money.

And how that wealth gets transitioned to the next generation – and how that relationship either gets retained or re-established – is a really critical point for us and one that we spend an awful lot of time on strategically.

It's actually why I just highlighted the fact, when looking at the relationship, we spend a lot of time with the next generation – be it through forums that I just mentioned – actually we established something quite unique that has been very well-received, which is a close social network for wealthy individual's siblings, I mean excuse me, children, so we actually have a very active network where we provide content in different forums for the social interaction amongst the next generation of our wealthy Asian clients.

And it's initiatives like this that makes us feel pretty good that we're well-positioned for that transition. Another really critical point is, once we get that transition, technology is going to become even more important – and so it is critical that we continue to invest, to build out the channels that are available for those more tech-savvy future clients to be able to interact with us, and for us to be able to provide rich content through to them.

So it is a key point and it's something that for us is a critical strategic challenge that we think about very intensely.

Jernej Omahen:

This part certainly is not impacted by technology, I imagine, the networking opportunities that you provide to these next-generation billionaires?

Kirt Gardner:

No. It is not impacted.

Question from the audience:

I believe that on the weekend there is a public poll in Switzerland about an initiative called Vollgeld, which is 'full money' in German, and if I understand it right, the idea is to basically require banks to hold full reserves at the Central Bank when giving out loans – can you help us to understand what the means for the Swiss landscape and also for UBS in particular?

Kirt Gardner:

Ah, you know, this whole initiative or referendum process in Switzerland is fascinating – and I think it creates a lot of intellectual stimulation. And I think this has been an exercise in intellectual stimulation.

I have full confidence that this is not something that is going to be voted in, certainly if you look at where the polls are sitting, it's very clear.

And actually one of the points one of my colleagues brought up today – if you look at the requirement for it to pass, it's not just the absolute majority, but you also require a majority in at least half [corrected] of the 26 cantons.

So the probability of that happening I think, is very, very remote. Naturally, if it were to materialize, it would have significant consequences for the banking industry. The impact would be much more pervasive for the local Cantonal banks vs. ourselves, because we have a much smaller portion of our overall business that's concentrated in deposits that would be impacted directly.

And then of course indirectly your loan book would be very, very impacted. The impacts range from losing the stable funding that underpins your mortgage book, with no market solution to be able to fund that mortgage book – to direct impacts on your net-interest income – potential impact on your credit rating, I mean there are a lot of potential direct and tangential impacts that could materialize if this were to be passed, but as I said I am fully confident that it won't.

Jernej Omahen:

Kirt, we can compel you to share the results of the internal impact study on UBS that you've done on this project, I'm sure? I'm kidding.

Kirt Gardner:

Well, as you would expect, we have done all the diligence that is need, and if it were to pass we're prepared to communicate our thoughts.

Jernej Omahen:

Ok. Let's hope that press release doesn't need to be published!

Jernej Omahen:

So what's on your Asset Management operation? It's profitable from a return perspective, it's accretive for the return on equity for the overall group but the margins are under pressure?

Kirt Gardner:

Yes, look, our Asset Management business is naturally one that gets discussed often and there are many reasons for that: the industry itself is going through significant transition as many in this room know much more directly, and in addition to that, if you look at bank's track records as owners of asset management they don't have the best track record. Now the way that we think about asset management is as you say that it returns extremely efficiently on the very little capital it uses, so therefore provides a huge amount of cash to us, although its size is relatively small compared to our other businesses. Also it is not prone to operational risk, so there is not a lot of legacy associated with being in that business and the regulatory intensity around it is a little bit less than our core banking business. So it is a business which is one that we would like to continue to be in; it's one that strategically we believe that we can enhance the value of the asset by owning it so we're very committed over the next three years to executing on the strategy that we've put in place and we still feel optimistic, but in the context of an industry that continues to go through a lot of structural pressure and obviously will continue to be exposed to that structural pressure.

Jernej Omahen:

Kirt, so this conference is slightly different from other banks' conferences in that we tend to pull in the politicians and the policy-makers as well and get their views. I often wonder: political instability in Europe, geopolitical instability more broadly, is that good for your business?

Kirt Gardner:

Well overall, geopolitical instability is very detrimental to the attitudes and the risk orientation of our wealth management clients. When we see events that materialize across the world, we see our clients react directly and it translates to how they interact with their wealth. And in general, if you see heightened levels of geopolitical risk, even though markets might be

performing well, you can still see our clients actually becoming very risk-averse. Now that really varies across different segments, and regions, and so…

Jernej Omahen:

Isn't part of that risk aversion to move money to UBS?

Kirt Gardner:

Well on the one hand it doesn't necessarily impede the flows. With instability, we could see flight to quality and we could continue to see very strong flows but on the other hand, our clients might actually move out of, for example equity investments into less risky assets and that reduces what we earn on those assets and they might be less prone to transacting with us, particularly around structured and alternative products which generate a lot of our transaction revenue and so that has an impact on our transactional revenue trajectory.

An interesting point, if you look at the different attitudes of clients with the heightened levels of the trade concerns that of course have materialized of course with the U.S administration, particularly with China, so we surveyed our U.S clients and we surveyed our Hong Kong clients. Our U.S clients, we asked them 'When you think about this heightened level of trade activity and the potential of course for trade wars' they said 'we are very concerned, we don't think it is good for the global economy'. And then the following question 'what are you going to do about it?' and they said 'nothing'. We asked our Hong Kong clients the same thing and they had the same answer to the first question, then we asked them 'what are you going to do about it?' They said 'we are actually going to re-position our assets and become much more defensive' So you see different attitudes towards geopolitical events between different markets and different parts of our business.

Jernej Omahen:

So staying with Europe for a little bit and I'm not suggesting that there is any more instability than usual there right now but you highlighted before, on-shore private banking operations in Europe as an area of growth. Why? Because the tax component no longer makes any difference to your business and it is better to be closer to your client? Or what is driving that?

Kirt Gardner:

In general with the transformation in the industry that has taken place and primarily around secrecy and transparency, I think firstly if you look at any industry projections the view is that the on-shore part of the industry will actually outgrow the off-shore. Secondly, we do continue to see a

connection between the on-shore markets and the off-shore markets, now that connection is not the driver and the primary reason that we are in the on-shore markets, we just view that overall as the largest wealth manager we believe that there is a good market opportunity across the larger European markets and it is one that we want to continue to be exposed to.

We also like the strategic optionality, of having the on-shore in addition to the off-shore presence, should any event materialize that changes either regulatory-wise or further developments across to axe our compliance requirements so that optionality actually gives us a little bit of future security.

Jernej Omahen:

One last question, I am actually going to try to be controversial then I'm going to go back to our shy audience. So as you pointed out, you know, UBS has the highest return amongst European banks, also the highest multiple as a consequence. Any transaction that UBS would undertake would be very attractive because the level of the currency if you want or the share price is so high relative to ours. Any temptation?

Kirt Gardner:

Well as I said our primary focus is organic. When we think about our plans we still believe that there is substantial growth for us through this organic deployment of capital and through alpha that we generate in our management.

Now having said that I mentioned before that we also look at adjacent and direct bolt-on opportunities for our global wealth management business. That is something in a space that we are naturally going to continue to be active in. I think if you deviate from there, there are other strategic issues about what that could do to our strategic identity; we wouldn't want to do anything that actually changes fundamentally who we are as a bank because we find that that is vitally important to our shareholders.

And of course also when we look at anything that is inorganic there is the consideration of goodwill in capital availability and we also want to think carefully about not impeding our ability to return capital to our shareholders. As you know we just reinitiated our buy-back, we did 3 million of repurchases during the month of May. Certainly at this price level we are buyers and that was against a target of 550, so that would seem to suggest that we have the potential to certainly exceed the targets that we set for our buy-back. That would be the other consideration.

Jernej Omahen:

I'll finish it off on a high note then and I'm going to ask the question of – so you touched on the buy-backs and the capital returns. UBS may be one other bank I can think of, you can actually sketch out a scenario where growth is quite healthy but capital intensity of that growth is virtually zero. And therefore the logical conclusion would be sooner or later when the bucket of capital for the current balance sheet is full, and you have got the absolute cap on the bulk of your balance sheet that at some point the payout ratio and the capital return would near those that we are currently seeing in the U.S. Is that a realistic outcome?

Kirt Gardner:

I think that there was a very important announcement that we made in the fourth quarter that is a consequence of getting the additional clarity around Basel III, I mean to us that was the last leg of capital requirement. We were able to come out and state that the impact that we assess was 35 billion as of 2022 and we also very clearly indicated how much capital we expected to use in the business between now and then, and with that it was also very clear that we were much more comfortable in our ability to begin to return capital at higher levels and so we reinitiated our buy-back. So I think from our perspective, that once we absorb that last leg of requirement for Basel III between here and there we still feel that we have ample ability to return to capital, there is no reason other than strategic and retention and opportunities within the business that we couldn't reach the levels of returns that we are seeing from the U.S banks.

Jernej Omahen:

Excellent. With that Kirt, thank you very much for flying over, for the presentation, thank you for all the questions. And we'll see you next year.

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