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EDITED TRANSCRIPT

UBSG.VX - UBS Group AG at Goldman Sachs European Financials Conference

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CORPORATE PARTICIPANTS

Sergio P. Ermotti *UBS Group AG - Group CEO & Chairman of Executive Board*

CONFERENCE CALL PARTICIPANTS

Jernej Omahen *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

PRESENTATION

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

So we have a distinct pleasure this morning, and it's a genuine honor and pleasure, to welcome the Chief Executive Officer of UBS. It's been a very long time since we had the CEO of UBS at our conference, so thank you for making the trip over from Switzerland.

Sergio Ermotti, the CEO, has taken over in the -- in his current capacity, more or less, broadly in 2011, so it's been almost 8 years, a bit less, I guess. But I've known Mr. Ermotti for a very long period of time because we overlapped when I was covering UniCredit, and he joined UniCredit, I think, in 2005.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Late.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Late 2005 and then joined as head of corporate and investment banking and private banking and ultimately rose to be the deputy Chief Executive Officer of the group.

Now I know Mr. -- I'm going to call you Sergio. I know, Sergio, that we had to work hard with your Investor Relations team to make this happen logistically, so thank you for being here. Thank you for taking the time to be with us, and I hope that we make you feel welcome.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Thank you.

QUESTIONS AND ANSWERS

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

But with that, I'm going to go immediately into more practical questions, which is first quarter of the year was horrible, and it was horrible not just for UBS, it was horrible for the industry. Within that, it was horrible for the European institutions active in capital markets. At the time, there was some hope that Q2 is going to look better. To the extent that you are willing to give us color on how the trading performance is going so far, I'm going to let you do that.

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Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Yes. Well, thanks for -- well, first of all, I would say that, yes, Q1 was very challenging, but if you think about it, it's a little bit longer than just I would say January and February and the first week of March. It was still very challenging. We were coming out of, de facto, a very weak November and an extremely weak December. So it was de facto more than 4 months. I have to say that in the second half, in March, we started to see normalization of the environment. I think if I look at March, April and May, the situation has clearly stabilized and has improved, although from a very low base. I think that the situation is still very fragile. I don't need to tell you about what's going on, on the macroeconomic front, the geopolitical one.

On the macro picture, the challenges that we are facing in the total reverse of expectations, for example, on rate hikes by the Feds, a year ago, we were at 3%. 6 months ago, we were even above 3% on the 10 years. We are now closer to 2% and with some -- and the market even expecting further cuts by the Fed. So this is clearly going to then translate into an impact on the NII for the Wealth Management business.

But if I look at sentiment in general, the sentiment is more -- has been more constructive. And at the end of March, investors were willing to consider deploying more cash, although the self-declared cash balances at the end of March of our clients, entrepreneurs were extremely high at 32%. 23% in the U.S., 36% in Asia. So there is still a willingness to consider to step in, in the market, but it's very fragile. And the current discussions and rate tensions discussions, Brexit, what's going on in Italy and the rest of Europe is clearly not helping to bring back confidence because, of course, December [dented] investor conference.

But I see more constructive environment for the business. We see people starting to engage more on buying downside protection or using principal protective strategies to gain upside potential, to step in, in the markets. So in that sense, the situation is better, but it's far from being clear and solid.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

It was interesting. In Q1, so the revenue environment was poor, and I think you were very -- UBS was very explicit in guiding for what was a difficult revenue environment. You reacted quickly on the cost side with what you referred to as technical cost cuts. What, in your mind, would need to happen for those technical cost cuts to become more -- of a more structural nature?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Well, I mean if I look at our ongoing initiatives on the cost side, they were planned in the summer late, early autumn of last year in an environment that was completely different. So we have structural cost initiatives regardless of market conditions. So we announced that we are -- we were planning, we are executing to take down around 800 million of cost on the Corporate Center side and around 200 million -- 300 million in the rest of the businesses, and the vast majority is coming from the creation of 1 Global Wealth Management unit.

So I have to say that in addition to the 300 million that you referred to, are more tactical in a sense, that we are delaying or layering out investments for the future, so getting the accounting benefit without compromising our ability to grow and invest for the future, without compromising on our initiatives to do regulatory remediations where necessary. So -- but to answer your question, I think that one has to say that if you see a deterioration, which is difficult to make an assessment right now because you need to understand what it is and which sector is affected.

But hypothetical questions are always difficult to answer. I can only tell you that, of course, when you start to look at the fact that we are saving money, but we are also reinvesting the vast majority of the money for new initiatives for growth, maybe the fuel saving mode that we are right now will be to go further down and further delay certain nice to have or growth initiatives that are not sustained by the current market environment. So -- but it's very difficult. I think that we would need to have another 3 to 5 quarters visibility, understand how much may or may not be idiosyncratic in terms of business mix, what we have and how much is industry. So it's a fairly complex situation. We need to always play with optionalities and think about what could we do, but it's very difficult always to predict exactly what you will do.

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Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Fair enough. So we had Stephen share on here before, and I always like to ask this question not just in a public forum but particularly internally at GS as well. So U.S. banks dominate capital market subsegments, but there's 1 subsegment which is of capital markets, if we can call it that even, which is extremely profitable. But the U.S. banks do poorly and are outcompeted particularly by UBS but also some of your peers.

UBS is the largest wealth manager in the world, full stop. It's just -- it's not just the largest wealth manager in the world. UBS is also bigger than -- and correct me if I'm wrong, certainly 3x bigger than us in U.S. private wealth management. So I think you have pretty much a leading position there as well and yet your private wealth business is growing. So from this base of being the biggest, it's growing quite quickly. There was 20 billion of net new money in Q1. 10 billion of that was in Asia.

I know that you're not a big fan of net new money as a guide to future profitability, but I'm still going to ask you. I mean how do you think about that? Does that continue? Was that an exceptional quarter? What are your growth plans in Asia? What's driving that?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

No. Look, I mean, of course, first of all, to -- maybe to answer your question, of course, I would say Switzerland and in general and particularly for UBS, I think that wealth management and asset gathering is part of our DNA, so it's no surprise that we are where we are. It takes -- it doesn't -- it takes decades. It takes 150 years to build that.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

So you have a slight head start.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

No. I mean the issue is that -- I wouldn't say that there is no room for complacency because the market environment is changing very rapidly. And why we are the largest in the world, which I think it's an important measure but not necessarily the most important one, we are probably -- more specifically, I would say that we are the truly global wealth manager because we are a key player, if not the leading player in the major -- and the U.S. is a very competitive market. We have competitors who have similar scale that we have globally in terms of assets, but they are very U.S.-skewed.

So we are very strong in Switzerland, in Europe. We are the leader in -- undisputed leader in Asia with more than 400 billion of client assets. So it's something that it takes years, decades and constant investments because if you look at what we do, we keep investing. We keep investing in Asia, now in China. And the payout for the China investments will come over the years. It's not something...

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Onshore?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Onshore, right? So, of course, we have existing and very -- as I just mentioned, our Hong Kong and Singapore capabilities are growing very fast, but the next engine of growth over the year is going to be there.

So the good news is this one. The bad news is that, as you know, it takes almost more than 30 banks globally to achieve a 50% share of wallet. So it's still a very fragmented market. And so that's the reason why it's very important for us to look at ways on how we want to grow, how we want to leverage our platform, our capabilities. And so globally, we are seeking also opportunities to work with other financial institutions where we

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have complementary skill sets, where we can do a kind of hybrid organic growth, a hybrid between instead of traditional M&A when you operate on onshore businesses. Onshore businesses -- the onshore segments are growing very fast. So -- but, of course, you can be everywhere onshore. And our unique capabilities are, in many, many cases, very complementary to local players where relationships may have launched, may have different angles, but they don't have investment expertise or the Wealth Management expertise we can bring to the table.

So we are looking at ways to continue to grow by combining stand-alone initiatives where, in addition to doing what we do very successfully in Switzerland, we are the bank for the other banks. And although we are competing with everybody, we are able to manage a healthy business relationship where we are competitors, where we are client to each other and we are counterparties. So -- and I think that this gives us room to expand the model also outside Switzerland. And actually, I think that very soon, we will announce a very important milestone on that.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Let me just dwell on this 10 billion of net new money from Asia.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Yes. But I haven't answered your question. I realized I haven't answered your question since you're coming back with net new money.

So net new money -- no, I think by its nature, I always say -- and that's the reason why I keep repeating that message even when we have a strong quarter, that don't overestimate net new money. And net new money is a very -- is one of the KPI we need to look at in order to assess if we grow, we don't grow. And in this environment with negative rates, low rates, it's very -- I can only tell you, it's very easy for us to attract net new money if we want. Very easy. But it would be a totally misleading measure to look at for growth because what we need to already assess is the probability of that net new money to be translate over time into investments. If it's just a way to have a safe haven because we are seeing very strongly capitalized, very well positioned, so across the board, investors wants to bring cash to us, but they don't want to pay for the cash, right? They want to put it there, not pay for negative rates. And as you know, so instead of -- in many cases, it's not only a P&L consideration. Nowadays, the capital consumption on deposits also went up exponentially. So we have always to master the issue about making sure that we -- what we onboard may have a temporary dilution of profitability but has a chance over time to become accretive to the business.

So to answer your question, they have to continue to expect volatility in the net new money, but the trend is that we're going to grow alongside GDP growth globally. So we think that if we go too much outside that range, it means that we are forcing 1 dimension. We are forcing -- we are sacrificing profitability, not only short-term profitability, also long-term profitability, and that's not healthy.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

As an aside, so when you hear U.S. investment banks say, "We're all going to make a push into international wealth management because we are nowhere and the profits are there," how important is it to be able to say, "I am not a U.S. institution," when competing for international wealth management assets? Like, for example, take China that you mentioned building onshore capacity. Do you think that even theoretically a U.S. institution could compete with -- or outcompete the Swiss institution in Asia?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Of course, I think that we have -- a few of our U.S. competitors are very good and very credible and strong, and I think that they are -- they have been and they will continue to be a benchmark for us to watch. And we are never -- I'm never complacent about any competitors. I think that as I mentioned before, particularly when you go into the high segments, the ultra and the GFO space, of course, U.S. banks with strong investment bank with management capabilities and balance sheets can create a concrete threat, but on the other end, we are not -- we have also a very focused and very competitive capabilities in investment bank, but we are not shy to deploy capital when it's necessary. We have tradition. We have relationships. I don't think that the geopolitical aspect in Asia versus U.S. banks is particularly strong, but it's more about relationships. And so --

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but as much as it takes decades and years to build up credible and sustainable investment banking businesses, I can say the same about creating a wealth management franchise.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Or even more. So coming back to growth in Wealth Management. So there's been more and more talk, and UBS has been more vocal on this, which is the importance of balance sheet, importance of being able to offer your balance sheet to high net worth clients as you grow. How important is that? How important can it be? How important a component of your growth is leverage?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Well, I think it's a very -- I mean loan -- if I think about 1 of the 40 growth initiatives that we have in place is clearly enhancing the penetration of lending in the lending business because when I look at our NII story, it's not just a deeper story on where rates goes, right? I mean our NII story has been and will continue to be, particularly in the U.S. and Asia, about increasing the penetration of loans. And in that sense, in the U.S., we are a fairly young player because we have really created banking activity for decades, even more than that. We have been transforming our business from a brokerage business to a Wealth Management business, very focused on the high end of the segment between 10 million and 100 million. That is what we have -- the highest level of assets per financial advisers and the highest productivity in the market in the U.S. So -- and -- but what we discover is that we were not doing enough of the rest of the ancillary banking businesses, and lending is one of that.

So we believe that we have scope to growth, but again, for us, it's very important in our equity story, in our capital story, capital return stories to -- how to balance this -- how to balance growth, cost and capital returns because deploying balances for lending at suboptimal levels is fairly easy nowadays. So the issue is to say, "How can you get it to return the cost of capital? How can you make it in a constructive way?" So we have to pay attention what we do. But we have a lot of initiatives that goes into -- in mortgages being residential, some scope for penetration in -- selected in commercials, more scope in securities lending and also getting even closer to some of our SMEs and entrepreneurs, clients that needs leverage in a careful way.

So I think that there is scope, and I think that we have cash and capital generation capabilities to do that. I don't feel that we have a model that is constrained by not having a capital to grow because I don't really feel that we are missing a lot of business that is accretive. I mean if we look at top line, if we look at PBT, of course, it's fair to say that we are losing some of it. But when I look at the return on capital deployed, which for me is as important, if not more important over time, that's where it is. And so when we look at growing a momentum, I don't want to go back into history too long, but 10 years ago, the bank had 2.4 trillion of balance sheet. Now we have 900 billion. So we have -- and over the years, we have been always trying to optimize cost, capital allocation, balance sheet, and it's an exercise that in some cases means that you sacrifice short-term growth. But we are ready to grow where we can create sustainable value to shareholders.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

So let's dive on this a little bit. So I think you brought up 2 aspects. One is the transformation of the U.S. business. The other one is the issue of profitable growth. So if I tie the 2 together, UBS has a large U.S. operation. You've been transforming it, as you point out. Net new money has stagnated. But in the meantime, I think the indication is that you expect that to change, the growth to return. And I know I bring up the issue of net new money at my own risk because you disagree with that as a growth indicator. What is the plan for the U.S.? What are your expectations? We kick it off with Asia and rapid growth there, but when you think about the U.S., what do you see?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Just to clarify, I don't disagree that net new money is an indicator.

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Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Profitable net new money.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

I think that I disagree when this is seen as the only or the main driver for assessing growth and quality. I'm not trying to -- I mean we have, I don't know, 7, 8 KPIs when we look at our business, and it's a constant trade-off between who are the top 3 for the next 3 to 6 months, who are going to be the next 3 going forward. You constantly optimize them. So at this stage, net new money should not be overweighted for the reason I mentioned before.

When I look in the U.S., well, look, the U.S. business today is -- contributes to around 30% of our bottom line, and I expect that business -- I mean the U.S. will grow over the years in the foreseeable future towards the 50%. Asia is growing fast double digits, but, of course, if you look at our asset base, we have 2.3 trillion plus 850 billion in Asset Management. But on the Wealth Management side, half is in the U.S. 400 billion, as I mentioned, is in Asia. So -- and all the initiatives that we have in the U.S. in terms of penetration of the ultra client base, which is one of the major initiatives that we have.

Coming back to your favorite topic, if I look at the ultra space, we believe that we have at least a 70 billion opportunity in the U.S. by simply looking at our current client base. We have more than 4,000 relationships in the U.S. that we know the net worth of more than 100 million. But we are not as deep in that kind of relationship as we could be.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Right. 70 billion you've said.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Of net new money opportunity. But most importantly, the opportunity is not only to get the net new money. It's to see that once you put together our existing capabilities in the GFO space, in the capital market space, we spoke about lending, you have an exponential opportunity to grow the P&L, and that's where we really need to go because the more you -- the way to get more close to those clients will not be to say, "Give me more to do the same," but it's rather presenting them with a broader range of products that they are currently using with competitors. So it's simply about getting our fair share of wallet with those clients. Likewise, we have it in the rest of the world.

And again, 10 years ago, our U.S. operation was more of a broker-dealer, and it's very national. We went throughout our transformation. 10 years ago or so, we were losing 150 million pretax a year in our Wealth Management business. Today, we do closer to 1.5 billion. So the scope for growth is still there by opening up a relationship. And in APAC, I mentioned it before that, that's a different dynamic because there, you have wealth creation. A billionaire -- a new billionaire gets created every week, so think about the numbers of multimillionaires, and that's where we get our fair share of wallet. But also, how do we help other financial institutions to get successful in capturing and in managing this wealth is the name of the game going forward.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

So I'll ask Sergio my last question on Wealth and Asset Management, then I will pause. We'll see if there's any questions in the room. And if (inaudible) otherwise, we'll continue.

So you brought up the issue of Asset Management, and I think there's a number of investors in the room which are asking themselves a question, is it the right size? Should it be bigger? Is UBS the natural owner of it? And these questions have been around for like 5 years.

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Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Is the question they are asking themselves about our businesses?

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Yes, no, maybe not. Maybe they are but not out loud.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

I'm so sure they are.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

So what do you think?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

No, look, I think that our Asset Management business, first of all, is -- if you compare it to maybe the more traditional, historical ownership of asset managers in Europe by banks, is a different kind of situation because it belongs to a bank that is a leader in wealth management and asset gathering. So it has, by definition, a very close affinity.

And so in what -- what it is our equity story? Our equity story is centered towards wealth management and asset gathering, our position as a universal bank in Switzerland, and then it's sustained by our capabilities in the IBs, and so that reinforces all that.

So when I look at how it fits together, there is no doubt in my point of view that it fits together. Our Asset Management as a share of -- I mean as a 27 -- around 27% of its assets of the 850 billion are coming from Wealth Management. So Wealth Management is the largest client, but it's not the only client. That's very important.

Our Asset Management is out there competing with institutional for institutional business, for corporate business, for wholesale business, and that's the reason and that's the way they gained their credibility to be a preferred or one of the preferred supplier of products to our wealth management.

So it fits very well, also because at the end of the day, we have a time to market when we develop new products, how we respond to clients or demands. We have -- it's very important for us to be able to, for example, in the areas of alternatives, in the areas of ESGs, in the areas of smart ETF or passage where we are in Europe one of the leader, although it's clear that the scale is not the same of the largest players. But it's a profitable way for us to do it. So it's very complementary.

So size and the questions about size, I mean size do matter, but it's not necessarily always the answer to the question. I think that our priority, for example, is more about how can we diversify our distribution channels? That's the reason why we want to be deeper in our penetration of wholesale client. So we are very skewed towards institutions. So I think that's where we are working on, and -- but it's not a scale issue per se.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Okay. So I said, let's check if there's any questions for you in the room. There's 1 right here. Can I just ask you to introduce yourself and your institution, make it slightly more formal? And we take it from there.

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Unidentified Shareholder

Yes. So I'm from Dubai, Landmark Family Investment Office. We are shareholders in UBS and fairly large on the [81s, too]. So my question is really about fines and compliance. We still keep seeing at least headline news about UBS being hit with some fine. How do we see things going forward? Because logically, Lehman happened many, many years ago, and one is still grappling with fines. So I wanted to understand what's the outlook there.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Well, that's -- yes. Of course, it's a fair question since it's clear that, not only externally but also for me, managing the past and legacy, in addition to managing today and the future, is a big chunk of my business. So I have to say that the vast majority and -- is -- of what you see is the resolution of long-standing issues that is legacy issue.

So knock on wood, I mean if I look at the vintage of all these issues and incoming, it's clearly indicating that not only UBS, the industry, I mean I'm not trying to shy away from our own responsibilities and issues that we had in the past, but if you go through the taxonomy of what happened to us over time, you would see that there is -- we are in good company, fortunately, in respect of many of those issues. So you see that the resolution of those issues is coming through.

I'm not trying to point out in any overly negative sense, but there is a tendency also by media to cover the same story at least 10 times over a certain period of time that it makes it look like it's a new issue, de facto, you are going through a process of resolution of the same issue that takes years and years. And in many cases, in the vast majority of the cases, we don't control timing. We don't -- we are a taker of timing.

So -- and in that sense, I think that you already saw a major contraction of our litigation -- I mean maybe a good proxy to look at our litigation is to look at the litigation notes on our quarterly reports. It's clearly shrinking as a function of having resolved a lot of matters, but still, some matters takes time. Some others are more complex. And -- but I do expect these things to go away.

But operational risk for banks for the industry, not only for our industry, if I look at social media, technology company, if I look at any operational risk, it's becoming one of the major risk in our industry, de facto. So we have to be aware that that's the reason why we invest a lot of money in -- not only in remediation but also investment in trying to make sure that we avoid as much as possible the risk of the reputational and the financial risk associated with that.

So technology investment is very important in that sense in KYC, AML processes. And -- but you see the trend. I expect this to normalize and has already been normalizing over time. But when it comes, takes (inaudible) and that's -- unfortunately. I would prefer to spend more time to managing the future than the past, but a few part of the package.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

But the proportion of time you're spending managing the past, I guess, has been falling (inaudible) over the past year?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Yes, yes. It's very -- I mean if you look at...

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

You started off managing the past.

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Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

I mean if you look at what happened in the first quarter and even as a consequence of today, you can imagine that I have to spend a lot of time in managing the internal and external dimensions and explaining to stakeholders, clients, employees, governments, shareholders what's happening, why. And this is -- it's not only the time. It's clearly something that we always have to wait. That's the reason why when you go into resolution of those matters, you always have to think about what is the cost but also what is the potential opportunity cost of being distracted, both reputational but also time in the organization. So we have to go through a very complex process in assessing all these cases, and they take time. So unfortunately, it's still a significant amount of time at least so far in 2019.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Fair enough. Let's see if there's any other questions. No. There's one here. And if anybody else wants to ask a question after that, just indicate so we know where to...

Unidentified Analyst

(inaudible) global investor. I have 2 questions, first on the investment banking. Can you elaborate more about the -- I would say the utmost fear in the IB since the recent management changes, if there are any influence in terms of operating performance? Are you feeling some pressure to review -- some pressure for a strategic review of the investment banking, I mean, the allocation -- the 1/3 capital allocation for the IB? My second question is on the synergy between the IB and the Wealth Management. One of your peers is doing well. Provide us some insight on this. Can you just elaborate more on this area?

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

The Investment Bank. So first of all, I think that the performance in Q2 and Q1 of our Investment Bank, I think, was not dissimilar to the rest of the industry. And in that sense, of course, it's also -- was also a reflection -- is a reflection of our strategic goals and our capabilities where we are highly skewed towards Europe and Asia and less so in the U.S.

So if you look at the performance and the business mix as -- of course, you are asking about do I feel the pressure of revisiting, rethinking about it. I take note of the pressure of people asking that question, which is a legitimate question. But at the end of the day, we have -- it's the same question we got during a couple of quarters in the last 6, 7 years where we had also a slowdown that was cyclical. And in that sense, we always analyze constantly what needs to be done. But it's clear that our Investment Bank has, even in that kind of environment, generated a 7% return on allocated capital. And the capital allocation is quite substantial both in terms of equity but also contingent capital cost that we allocate to the Investment Bank. A 7% return is something that some banks achieving in good market environment.

So I have to say -- now the most important issue from a strategic standpoint of view, I mean the 7% is not our ambition. It's twice as that. The most important issue today is clear, for the reason I mentioned before, that our ultra GFO business and our corporate business in Switzerland would not be able to perform at the same level with the same capabilities without an Investment Bank capabilities.

Now shrinking further, we will always consider market condition and structural changes in the industry but with the current -- the current capital allocation to the IB is allowing us to create a mix of capabilities that are complementary and -- to each other and are offsetting each other in terms of potential cyclicality. But most importantly, they are the one who our client needs to be successful, I mean our clients in the Wealth Management and corporate side.

So the atmosphere in the IB, I think Rob Karofsky and Piero Novelli are doing a fantastic job. And as I said, people understand that it has nothing to do with management changes. It has to do with the environment.

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Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Great. Ever attempted to increase the scope of the IB? I would think to yourself, you come back too much.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

No, no, no. Look, as I mentioned before, the issues that I have no evidence that we are missing something's particular. I mean, of course, we wish we would have a larger franchise in the U.S. in terms of the more -- the less capital intensive businesses in the origination phase, in the advisory space. But if I look at many years that we dramatically cut back, particularly in REITs and credit, they are clearly not -- they are dilutive. And I don't see any player in the industry being able to articulate a storyline that creates -- on a stand-alone vertical basis, those products are dilutive to returns because the capital consumption in the new regulatory framework is prohibitive, and I don't think we missed anything. But what we missed is top line and PBT. If this is then becoming accretive to capital, it's another story.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Excellent. Sergio, thank you very much.

Sergio P. Ermotti - *UBS Group AG - Group CEO & Chairman of Executive Board*

Thank you.

Jernej Omahen - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Financial Institutions Group*

Thank you.

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