UBS AG (UBSN), Switzerland’s largest bank, reported first-quarter profit that beat analysts’ estimates and said it plans a special payout for investors. The shares rose.

Net income climbed 6.7 percent from a year earlier to 1.05 billion Swiss francs ($1.2 billion), the Zurich-based bank said in a statement today, higher than the 885 million-franc average estimate of 11 analysts surveyed by Bloomberg.

Chief Executive Officer Sergio Ermotti, who decided in 2012 to exit most debt-trading businesses, is speeding up those plans to reach the bank’s main profitability target. UBS said last year it may not achieve the 15 percent return-on-equity goal until 2016 -- a year later than first planned -- after the Swiss regulator demanded it hold more capital. Analysts question whether the bank will meet the delayed target.

UBS is “most likely” to reach the target in 2016, Ermotti, 53, said in an interview on Bloomberg Television. “We do believe that our business mix and our further reduction in risk-weighted assets and balance sheet will make us totally eligible for this kind of return.”

UBS plans to change its legal structure this year by creating a holding company through a share-for-share exchange offer to satisfy regulators’ demands for separate legal entities in different regions. The bank said it expects the move to lower its capital requirements and plans to pay out at least 25 centimes a share once the transaction is completed. The bank’s regular dividend proposed for 2013 was 25 centimes a share.

UBS advanced 1.4 percent to 18.53 francs by 9:07 a.m. in Swiss trading, bringing the gain this year to 9.4 percent. That compares with the 2.4 percent gain in the 43-company Bloomberg Europe Banks and Financial Services Index.

Divisional Earnings

UBS, whose annual return on equity averaged 22 percent over the seven years before it started posting losses in 2007, has struggled to revive profit as capital requirements increased. After reporting a loss in 2007, 2008, 2009 and 2012, return on equity dropped to 6.7 percent last year from 8.5 percent in 2011 and 16.7 percent in 2010. That measure of profitability stood at 8.7 percent in the first quarter.

The bank’s earnings from its wealth management division, which attracted 10.9 billion francs in net
new assets, fell 6.8 percent in the first quarter from a year earlier to 619 million francs. Wealth management Americas posted a 24 percent jump in profit to 242 million francs. Earnings at the investment bank dropped 56 percent to 425 million francs.

**Wealth Management**

UBS is expanding its wealth management business in Asia and emerging markets by hiring client advisers, Juerg Zeltner, who heads the division globally excluding the U.S. and Canada, said in an interview last month. Clients are still reluctant to invest, Zeltner said.

The wealth management businesses target a combined annual growth in pretax profit, excluding reorganization charges and asset sales, of 10 percent to 15 percent over the cycle, UBS said today. The bank also lowered its target range for the cost-to-income ratio at each of the two divisions by five percentage points.

The investment bank’s profit dropped in the quarter as revenue slumped 21 percent while costs declined 2.3 percent. Revenue from equities trading fell 11 percent to 1.04 billion francs and foreign exchange, rates and credit posted a 38 percent drop in revenue to 382 million francs. The revenue from advisory, underwriting of stock and bond sales and financing solutions fell 23 percent to 770 million francs.

**Ermotti’s Plan**

JPMorgan Chase & Co. (JPM), Goldman Sachs Group Inc., Citigroup Inc., Bank of America Corp., Morgan Stanley, Deutsche Bank AG and Credit Suisse Group AG (CSGN) reported a 25 percent drop in cumulative first-quarter revenue from fixed income and a 22 percent decline in equities, compared with a year earlier, data compiled by Bloomberg Industries show. The figures exclude valuation adjustments. The cumulative revenue at the firms from advising on mergers and acquisitions and underwriting of stock and bond sales fell 14 percent in the quarter, the data show.

Ermotti’s plan to bolster earnings by focusing on money-management, which requires less capital than investment banking, hinges on getting rid of assets UBS has targeted for disposal, as these so-called non-core and legacy holdings are producing losses and eating up resources. The unit’s 2.31 billion-franc pretax loss for 2013 nullified a 2.3 billion-franc pretax profit at the investment bank.

**Asset Reductions**

UBS said today it plans to cut risk-weighted assets at the non-core unit to about 40 billion francs by the end of 2015, compared with 55 billion francs targeted previously. The holdings amounted to 60.1 billion francs at the end of March.

While the plan for asset reductions is being accelerated, the bank said it will probably take longer than originally planned to cut costs. UBS said it intends to trim expenses by a net 2.1 billion francs in the corporate center from the levels of 2013, with 1.4 billion francs of the reductions by the end of 2015. UBS previously aimed to achieve all the cost cuts by then.
The remaining 700 million francs in savings will depend on when the bank fully exits the non-core assets, UBS said. It also said it will no longer provide estimates for future headcount levels after saying in 2012 it would cut 10,000 jobs to bring staff to about 54,000 worldwide.

UBS also reiterated plans to pay out more than 50 percent of earnings as dividends to shareholders once it reaches its capital goals. UBS's common equity ratio rose to 13.2 percent at the end of March from 12.8 percent at the end of December, surpassing one of those targets.

Pretax earnings at the retail and corporate division rose 11 percent to 386 million francs, while the asset management unit had a 36 percent drop in earnings to 122 million francs.

Asset management attracted 9.6 billion francs in net new funds in the quarter, the most since the third quarter of 2006. The unit will aim to boost pretax profit, excluding restructuring charges and asset sales, to 1 billion francs in the medium term from profit of 576 million francs last year.

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