CS Earnings Call – FY2022 Q4

Date: February 9, 2023

Operator

Good morning. This is the conference operator. Welcome, and thank you for joining Credit Suisse Group's Fourth Quarter and Full Year 2022 Results Conference Call for Analysts and Investors. As a reminder, all participants are in a listen-only mode, and the conference is recorded. You will have the opportunity to ask questions after the presentation. [Operator Instructions] I will now turn the conference over to Kinner Lakhani, Head of Investor Relations and Group Strategy and Development. Please go ahead, Kinner.

Kinner Lakhani

Thank you, Alice. Good morning. Welcome, everyone. Before we begin, let me remind you of the important cautionary statements on Slides 2 and 3, including in relation to forward-looking statements, non-GAAP financial measures and Basel III disclosures. For a detailed discussion of our results, we refer you to the Credit Suisse fourth quarter and full year 2022 earnings release that was published this morning. Let me remind you that our 2022 annual report and audited financial statements for the year will be published on or around March 9, 2023. So, I will now hand over to our Group CEO, Ulrich Koerner; followed by our Group CFO, Dixit Joshi, who will run through the numbers.

Ulrich Koerner

Thank you, Kinner. Ladies and gentlemen, thank you all for joining today. We greatly appreciate your participation and engagement. Let me begin with some opening remarks. 2022 was an extremely challenging year for Credit Suisse with the group posting a net loss of CHF7.3 billion. Nonetheless, it was also a year which marked the beginning of the important and necessary transformation for our organization. On October 27th, we presented a targeted plan to create the new Credit Suisse, a simpler, more focused bank built around client needs. And, today, we reaffirm all of the targets we announced in October. We are building the new Credit Suisse around our Wealth Management and Swiss Bank franchises complemented by our leading and differentiated capabilities and Asset Management and Markets. We continue to execute our transformation at an accelerated pace and in a determined manner. I will share some details of our progress over the course of the presentation. In line with the update provided on November 23rd, we reported a pre-tax loss of CHF1.3 billion and an adjusted pre-tax loss of CHF1 billion for the fourth quarter. We have a robust balance sheet, and we are executing on our transformation from a position of strengths. We reported a year-end CET1 ratio of 14.1% and a Tier 1 leverage ratio of 7.7%. Our liquidity position also improved following the impact of the events of October. The average liquidity coverage ratio was at 144% at the end of the fourth quarter, with further improvements this year. At these levels, our capital and liquidity ratios compare favorably to our peers. The Board will propose a cash dividend of CHF0.05 per share for the financial year 2022, subject to AGM approval. This is consistent with our intention to pay a nominal dividend throughout the transformation period. We remain focused on the disciplined execution of our strategy and have made progress in restructuring our Investment Bank, the creation of CS First Boston, and the acceleration of our cost transformation program. We are confident that our fundamental reshaping of the bank will create value for all our stakeholders. Over the next three years, we will continue to execute at pace, building on our respective global franchise and delivering exceptional service to our clients. Let me turn to the fourth quarter results. The group reported an adjusted pre-tax loss of CHF1 billion for the fourth quarter, primarily reflecting an adjusted pre-tax loss of $1.3 billion in the Investment Bank. Challenging market conditions and lower client activity had a significant impact on our Capital Markets and Advisory businesses, while the strategic actions to de-risk and exit certain business lines resulted in lower sales and trading revenues. Now, turning to Wealth Management. The division reported an adjusted pre-tax loss of CHF155 million. During the quarter, we put in place an extensive client outreach program and are already seeing the benefits of our initiatives. We are also taking proactive steps to reduce the cost base as part of the group-wide cost transformation program. The Swiss Bank division reported an adjusted pre-tax profit of CHF259 million for the quarter. This demonstrates our resilience and leadership position in our home market. Overall, the group reported a pre-tax loss of CHF1.3 billion. This result includes several adjusting items, the largest of which were restructuring expenses related to our cost transformation program as well as real estate gains. Our new executive board remains fully focused on the successful execution of our strategic transformation and the actions we have taken so far strengthen our business momentum in 2023 and beyond. Now, let me be clear, our teams continue to work relentlessly on serving our clients. Since October, we have proactively engaged with more than 10,000 Wealth Management clients and over 50,000 clients in the Swiss Bank. As previously mentioned, we are seeing the first positive signs from our comprehensive global initiatives to regain deposits as well as assets under management. In January, we saw deposit inflows at group level in Wealth Management and in APAC, as well as net new asset in APAC and in Swiss Bank. Importantly, clients remain overwhelmingly supportive and we remain very thankful for that. To remind you of the strengths of our Wealth Management business, we are the number two wealth manager outside the U.S. with a deep client franchise balanced between ultra and high net worth clients. We have a very clear plan to restore the Wealth Management division to profitability. We are focused on growing a more stable high net worth business. We increased our focus on recurring revenues and regaining client wallet share among ultra-high net worth clients. And we are undertaking steps to reduce costs and improve efficiency. Let me now update you on what we have achieved since October 27th. We have made significant progress in the transformation and restructuring of the Investment Bank. Since the end of the third quarter, we have achieved about two-thirds of our Securitized Products Group asset reduction target. In the fourth quarter, we've reduced risk-weighted assets and leveraged exposure by about $5 billion and around $15 billion, respectively, reflecting proactive deleveraging and derisking measures in the non-core unit, that's ahead of the target run rate we set in October. As announced, our goal is to carve out CS First Boston as a distinct leading independent Capital Markets and Advisory net business, and we are pleased with the acquisition of the Investment Banking business of M. Klein & Company. This is a significant step forward in realizing CS First Boston's growth potential and creating value for our shareholders. Since our strategy announcement in October, we have strengthened our capital position by raising around CHF4 billion of equity and we have completed around CHF10 billion of debt issuances, while it's making tangible progress in deleveraging and derisking the group further. This should reduce our funding needs in the future. Our cost transformation is well underway. As previously disclosed, action initiated in the fourth quarter represent approximately 80% of our 2023 cost base reduction target of about CHF1.2 billion. I want to make it absolutely clear that me and my management team are relentless in driving our cost base lower. We have made significant progress on our exit from the Securitized Products. We completed the first closing of our transaction with Apollo. That, along with other actions taken, contributed to an overall reduction in Securitized Products' assets by around $35 billion, since the end of the third quarter. This is approximately two-thirds of our targeted reduction of $55 billion. So, we are on track to close the full transaction in the first half of 2023, subject to regulatory approvals. This transaction, together with the potential sale of other portfolio assets, is expected to reduce risk-weighted assets, leverage exposure and other risk metrics over time. These actions are consistent with our strategy to significantly reduce the size of the Investment Bank and release liquidity and capital to support the bank's core businesses. Turning to the non-core unit. As you can see on the slide, we are running ahead of schedule on both risk-weighted assets reductions and leverage exposure. Dixit will cover the important progress we have made in more detail. CS First Boston is an attractive value proposition for Credit Suisse shareholders and its carve out is an important step in our strategic transformation. We are creating a global independent capital markets and advisory led bank with distinctive capabilities and a unique market position. It will be headquartered in the US with leadership positions in Europe, Asia and selected emerging markets. We are confident that our history of innovation, market leadership and the years of experience of our core teams, together with a simpler operating and regulatory model, will provide a clear competitive advantage. Our execution plan is already underway. We have announced the acquisition of M. Klein & Company, which will further strengthen CS First Boston's advisory capabilities and we are right-sizing the business to reduce capital needs and release low-returning capital. In short, CS First Boston will be efficient, agile and have a comprehensive product offering designed around client needs. Importantly, the new Credit Suisse will maintain a long-term strategic partnership with CS First Boston, leveraging our leading market platform, whilst ensuring the close connectivity to our Wealth Management and Swiss Bank businesses. And we have a strong management team under the leadership of Michael Klein. Michael has an established track record in building leading capital markets and advisory led businesses as well as four decades of investment banking experience. The acquisition of M. Klein & Company adds to Credit Suisse's advisory capabilities and accelerates the creation of an advisory-led CS First Boston. At the same time, it creates significant revenue opportunities for Credit Suisse. The transaction is that a single digit price-to-earnings multiple and is expected to be earnings accretive with an anticipated impact on the CET1 ratio of less than 10 basis points. In October, we made a very clear commitment to simplify the group and to reduce our cost base. We intend to cut the total headcount from around 52,000 in 2022 to 43,000 over the next three years. We have already achieved a 4% reduction in the fourth quarter 2022 and we intend to continue to reduce third-party costs, including spending on contractors and consultants in a targeted and decisive manner. We are determined to deliver on our cost reduction target of CHF1.2 billion in 2023 and CHF2.5 billion by 2025. These targets on a like-for-like basis and exclude the impact of business exits. We are making progress on our cost transformation, and we will be relentless in identifying opportunities to move further and faster. Rest assured, our cost initiatives will not impact the investments in risk management and technology, including digitalization as well as our targeted business growth. To sum up, we are well advanced on our journey to deliver a new simpler, more focused Credit Suisse built around client needs. We have a new executive board with relevant experience and a strong track record of execution in similar situations. We are building a unified culture from the top of the organization with a strong focus on risk management, collaboration and accountability. We remain disciplined on strategic execution, strengthening and reallocating capital, delivery on our cost ambitions, and, most importantly, supporting our clients globally. As I mentioned, we have acted decisively to address the impact of the outflows experienced in the fourth quarter and we have seen deposits inflows at the group level in Wealth Management and APAC, as well as net new assets in APAC and the Swiss Bank. We are also making progress with the carve out of CS First Boston and are creating a more focused markets business that will deliver innovative solutions and products for our Wealth Management and our institutional clients. In short, we are determined to make this transformation a success, restore trust with all stakeholders, and ultimately create sustainable value for our shareholders. With that, I hand it over to Dixit.

Dixit Joshi

Thank you, Ulrich, and good morning, everyone. I'm going to start today with the financial overview for the fourth quarter and the full year, and then provide some details on assets under management given the outflows that we saw in the quarter. After that, I'll go through the divisional performances before setting out some of the key themes for the group. Before I begin, I'd point out that this is the last time we will be discussing our results under our current financial reporting structure. As of the first quarter of 2023, we will be publishing our earnings under the new structure that we outlined in October comprising the four key business divisions and the Corporate Center, plus the Capital Release Unit. We will provide a restated time series at the beginning of April, along with other relevant information and, of course, we plan to provide regular updates detailing our progress as we execute on our strategy. Please note that unless I state otherwise, for example with the Investment Bank, you can assume that whenever I give a currency figure it's in Swiss francs. So, let's start with the group overview. The group took clear strides forward, despite the challenging fourth quarter. We delivered the strategy update alongside our third quarter earnings and started immediately on implementation. We made good progress reducing non-core related exposures, on cost reduction measures and on balance sheet reductions relating to the Capital Release Unit. We proactively managed our liquidity position following the outflows in the fourth quarter. We executed a successful series of capital and funding measures, including raising around CHF4 billion in equity and completing around CHF6 billion of debt issuance in the fourth quarter. We strengthened our CET1 ratio to 14.1%, and we remained resolutely focused on execution and on supporting our clients. As you can see from this morning's announcements regarding the acquisition of the Investment Banking business of M. Klein & Company and the completion of the first closing of our Securitized Products transaction with Apollo, we are executing rapidly on the strategy and we're ahead of plan. In terms of our financial performance, the net asset and deposit outflows in the fourth quarter reduced our net interest income and recurring revenues, notably in Wealth Management. The Investment Bank experienced another tough quarter with lower client activity, the impact of our strategic actions, as well as the events of the fourth quarter, all contributing to the reduced revenues in sales and trading. Revenues in our Capital Markets and Advisory businesses were also lower and more in line with the industry-wide slowdown. Overall, fourth quarter reported net revenues for the group were 33% lower year-on-year at CHF3.1 billion and reported operating expenses were 31% lower at CHF4.3 billion. Provisions for credit losses amounted to 6 basis points of net loans at the year-end, mainly relating to specific provisions taken in the Swiss Bank and the Investment Bank. This resulted in a reported pre-tax loss for the quarter for the group of CHF1.3 billion, in line with the guidance that we gave at the end of November of a loss of up to CHF1.5 billion. Our reported results include a number of adjusting items with a cumulative net impact on our fourth quarter results of CHF300 million. A detailed breakdown can be found in the earnings release. However, notable adjusting revenue items included CHF191 million of real estate gains and a CHF75 million loss relating to the disposal of our remaining stake in Allfunds. In total, adjusted net revenues for the fourth quarter were 32% lower year-on-year at CHF3 billion. Reported operating expenses for the quarter included CHF352 million of restructuring expenses, broadly in line with our guidance of CHF300 million and CHF34 million of major litigation provisions. We continue to make good progress in resolving our outstanding legacy issues. Adjusting for these items, operating expenses were 3% lower year-on-year at CHF3.9 billion, resulting in an adjusted pre-tax loss for the quarter of CHF1 billion. The income tax expense for the fourth quarter was CHF82 million, resulting in a net loss attributable to shareholders of CHF1.4 billion. The reason we have a tax charge for the quarter, despite the overall reported pre-tax loss, is driven by the fact that we earn taxable income in legal entities, which cannot be offset by tax losses elsewhere in the group. We expect this to continue to be the case in 2023 as we execute on our transformation program. I'd like briefly to mention the Corporate Center, which booked an adjusted pre-tax income of CHF104 million in the fourth quarter compared to a loss of CHF172 million in the same period last year. This was largely driven by treasury results. Turning back to the group, for the full year, reported revenues were 34% lower compared to 2021 at CHF14.9 billion, reported operating expenses were 5% lower at CHF18.2 billion, leading to a reported pre-tax loss for the year of CHF3.3 billion. The third quarter deferred tax impairment of CHF3.7 billion resulted in a reported net loss of CHF7.3 billion for 2022. Let me make a brief comment on compensation, which for the full year was down 2%. The fourth quarter total for the group decreased by 4% year-on-year, however it was 8% higher compared to the third quarter. This was a function of structural changes we've made to compensation over the course of the last year. As a result, some of the division show increases in the compensation line for the fourth quarter. Compensation is one of our key levers for controlling costs and I'd note that the total variable compensation pool for 2022 was 50% lower than in 2021, as we took actions commensurate with the decline in the group performance. Now, before we turn to the performance of our business divisions, which I will discuss as usual on an adjusted basis, I'll touch on the impact of the client asset outflows during the fourth quarter on Slide 15. Our assets under management were impacted by significant net asset outflows early in the quarter, which affected both our revenues and our liquidity position for the fourth quarter. Approximately, two-thirds of the net asset outflows in the fourth quarter occurred in October and they've reduced considerably in November and December. Group assets under management were around 8% lower quarter-on-quarter at CHF1.3 trillion, largely reflecting net asset outflows of CHF111 billion. Deposit outflows made up around 60% of Wealth Management and Swiss Bank net asset outflows in the quarter. In total, net asset outflows represented 8% of assets under management at the end of September. Since the start of the fourth quarter, we strengthened our balance sheet, including through the capital raises to set the group on a stronger trajectory. We're now three months into our transformation journey and we saw the first signs of the benefits of these and other proactive initiatives in January with positive deposit inflows at the group level and specifically in Wealth Management. Net asset flows in the Swiss Bank were positive and the net asset outflows in Wealth Management in January where at a reduced level compared to December with net asset inflows in Asia Pacific. Moving on to the divisional overviews, we'll start with Wealth Management. Lower assets under management and deposits as well as subdued client activity resulted in lower revenues. This led to a loss in Wealth Management as we had indicated in our outlook statement in November. Net interest income declined 17% year-on-year with lower loan income and higher funding costs offsetting the benefit of rising interest rates on deposit income, albeit on lower deposit volumes. Similarly, lower average assets under management resulted in a 17% year-on-year fall in recurring commissions and fees. Transaction based revenues were 20% lower, reflecting reduced levels of client activity and mark-to-market losses of CHF31 million on financing exposures. Total net revenues were down 18% year-on-year. Operating expenses were 5% higher, mainly due to higher general and administrative expenses, reflecting higher allocated corporate function costs. I would note that a number of the measures that we took in the fourth quarter should reduce costs for the division in 2023. Overall, the division delivered an adjusted pre-tax loss for the quarter of CHF155 million. While we expect the division to report a loss for the first quarter, we are determined to return Wealth Management to profitability and Ulrich has highlighted some of the specific actions that we're taking to achieve this. Let's turn to the Swiss Bank on Slide 17. Swiss Bank had a resilient fourth quarter. Net revenues were 10% lower year-on-year, but quarter-on-quarter revenues held up well, 3% lower. Net asset outflows were CHF8.3 billion, primarily from private clients. The reduction in the threshold benefit from the Swiss National Bank, given rising interest rates in Switzerland, negatively impacted net interest income, so this was partially offset by higher deposit income. NII was 11% lower year-on-year and flat compared to the third quarter. As a reminder, the loss of the SNB threshold benefits is now in the quarterly run rate and we expect the year-on-year impact, which was CHF78 million in the fourth quarter, to bottom out by the middle of this year. Recurring commissions and fees were 10% lower year-on-year, mainly due to lower average assets under management. These were flat compared to the end of the third quarter and 12% lower year-on-year, primarily the result of declining markets. Transaction-based revenues were 18% lower year-on-year, mainly driven by the impact of equity investments. Excluding these, lower client activity accounted for an 8% reduction. A 6% year-on-year increase in operating expenses mainly reflected the structural changes to compensation that I referred to earlier. Provisions for credit losses were CHF28 million compared to a release of CHF4 million in the fourth quarter last year, equivalent to 7 basis points of net loans. Overall, the division reported a pre-tax income of CHF259 million, 41% lower year-on-year. Turning to Asset Management. Market conditions in the fourth quarter were challenging for the Asset Management division. Net revenues were down 28% year-on-year, driven primarily by lower performance, transaction and placement fees, as well as reduced management fees. Management fees were 19% lower, reflecting a decline in assets under management of CHF74 billion, CHF50 billion of which was due to FX and market effects. Net asset outflows in the quarter were CHF11.7 billion, across both traditional and alternative investments as well as outflows from investments and partnerships. Operating expenses were 3% lower year-on-year, primarily due to lower costs relating to the supply chain finance funds matter and reduced commission expenses, partly offset by higher compensation and benefits expenses. In total, the division booked an adjusted pre-tax loss of CHF15 million for the quarter. Let's now turn to the Investment Bank on Slide 19. Clearly, this was not a normal quarter for the group and in particular for the Investment Bank, where revenues were down 74% year-on-year. Revenues were directly impacted by: first, our restructuring actions, including the steps taken to de-risk and exit certain business lines; second, actions we took in response to the group's deposit outflows in the fourth quarter; and third, reduced client activity as capital market conditions remained challenging. Operating expenses were 15% lower year-on-year, mainly reflecting lower compensation and benefits, resulting in an adjusted pre-tax loss for the quarter of $1.3 billion. Our sales and trading businesses were impacted both by our restructuring and lower client activity, resulting in an 89% year-on-year decline in revenues. We estimate that the impact of the accelerated deleveraging, including that linked to our strategic actions, accounted for around 40% of the year-on-year decline. Our continued strength in macro was offset by a substantial decline in Securitized Products and Global Credit Products, largely due to our strategic actions and, consequently, fixed income revenues were 84% lower year-on-year. Equity sales and trading revenues were affected by the impact of our strategic actions, reduced client activity and less favorable market conditions on the equity derivatives business. The exit of Prime Services also had a year-on-year effect on cash equities. Overall, equities revenues were 96% lower year-on-year. For those business lines less directly impacted by our restructuring, the performance was more resilient with Capital Markets and Advisory revenues 59% lower year-on-year, in line with the reduced industry fee pools. The reported pre-tax loss of $1.5 billion included restructuring expenses of $214 million for the fourth quarter, part of which was related to the headcount reduction program. We also booked major litigation expenses of $43 million. Looking forward, our strategic actions and the ongoing challenging market backdrop mean we would also expect the Investment Bank to report a loss in the first quarter of 2023. However, we have taken decisive action on the structure of the division and these measures are important steps in the creation of the new Credit Suisse. I'll now take you through our progress on some of our key financial metrics starting with capital on Slide 20. We ended the fourth quarter with a CET1 ratio of 14.1%, up around 150 basis points quarter-on-quarter. Our successful capital increases added 147 basis points, underpinning our capital strength as we continue to execute on our strategic transformation. Business RWA reductions benefited the CET1 ratio by 80 basis points, partially offset by 53 basis points attributable to the net loss for the quarter and by 24 basis points due to other CET1 movements, including FX and model and parameter updates. Overall, RWAs declined by CHF23 billion quarter-on-quarter, mainly due to the reductions in the Investment Bank of around CHF5 billion and around CHF9 billion in Wealth Management and Swiss Bank, with a further CHF10 billion due to FX. Our parent capital ratio was around 250 basis points higher compared to the end of September at 12.2%. I should also note that as we reduce RMBS exposures and activity as part of our announced strategy towards a managed exit from the Securitized Products business and to de-risk the bank, we anticipate, based on ongoing regulatory discussions, that operational risk RWAs associated with historical RMBS activity will decrease. Turning to leverage. For the fourth quarter, we reported a Tier 1 leverage ratio of 7.7% compared to 6% in the prior quarter. Clearly, this ratio was higher than the level we'd normally expect to maintain, primarily because of the reduced size of the balance sheet which resulted from the events early in the fourth quarter. Reductions in high-quality liquid assets, mainly from the deposit outflows, and business deleveraging contributed 102 basis points and 59 basis points, respectively, with the capital raises contributing 47 basis points. This was partly offset by 17 basis point impact resulting from the reported net loss for the fourth quarter. Leverage exposure was CHF186 billion lower quarter-on-quarter at CHF651 billion, primarily driven by CHF118 billion drop in HQLA as well as deleveraging, notably in the Investment Bank. Let's now look at these deleveraging and derisking measures in more detail on Slide 22. As part of our strategic transformation announced in October, on the 1st of January, we established the Capital Release Unit, which includes the non-core for non-strategic assets. The CRU will be a separate reporting division and we will provide a more detailed breakdown when we publish our restated financials in early April. We've made a strong start in the fourth quarter in advance of the formal establishment of the CRU. Proactive deleveraging, derisking, and market moves reduced RWAs by around $5 billion and leverage exposure by around $15 billion, excluding the impact from reductions in HQLA allocations. We're running ahead of schedule, and I'd add that de-risking also generated an estimated $10 billion of liquidity in the fourth quarter. We intend to continue to execute on the run down of assets to release capital and liquidity, as well as targeting cost reductions. As you can see, we're well on track to reach our RWA and leverage exposure targets of around $25 billion and around $92 billion, respectively, by the end of this year. Moving on to our liquidity coverage ratio. Although, the group's liquidity position was impacted by deposit outflows in the fourth quarter, our average liquidity coverage ratio at the end of December stood at 144%, well above the group's minimum regulatory requirements and comparing favorably with our peer group. This represents an improvement from the lower levels in the quarter. It was a result of a series of proactive measures, including the capital raises, debt issuances and deleveraging. We have continued to see the improvement in the ratio, since the start of the year and we remain focused on maintaining our LCR at a prudent level. The disciplined execution of our strategy, including our simplification program, should lead to further liquidity improvements and more efficient liquidity management across the group. Moving now to funding on Slide 24. A major consequence of our strategic transformation is that the group's future funding needs and related costs should reduce considerably over time due to the simplification of our business model. This should result in a more efficient group balance sheet. You can see that in 2023, as a result of the balance sheet deleveraging driven by our strategic actions, redemptions should exceed our estimated debt issuance plan for the year. This reverses the situation of recent years, and I would expect this trend to continue over the next three years. Our issuance plan for the current financial year is around CHF17 billion, less than the expected redemptions of CHF22 billion. Reduced HoldCo funding needs means we expect issuance of around CHF2 billion and AT1 issuance of around CHF4 billion. In January, we completed nearly half of our planned CHF9 billion OpCo issuance for the year and around a quarter of the overall full year funding plan. Let's move on to net interest income sensitivity and guidance for funding costs. I would expect the cumulative revenue benefit based on current forward curves to be around CHF900 million for the next three years versus year-end 2022 with the largest benefit coming from higher US dollar rates. To be clear, our forward net interest income assumptions are based on the static balance sheet at the end of the year. The benefit going forward will be a function of actual loan and deposit balances. Now, turning to funding costs. The widening of our credit spreads over the course of 2022 has resulted in an increase in the cost of our funding and I would expect this to continue to be the case, partially offsetting the benefit of higher interest rates over the next three years. For 2023, I expect that increase to be in the region of CHF500 million compared to 2022. However, as I mentioned earlier, we expect our funding needs and costs to reduce as we progress our transformation. Turning now to costs. Adjusted operating expenses for the year was CHF16.2 billion, broadly flat compared to 2021 and below our previous guidance of around CHF16.5 billion to CHF17 billion, reflecting our disciplined approach to costs, including compensation, which I touched on earlier. Looking forward, our ambition to reduce the cost base to no more than CHF15.8 billion in 2023 and to around CHF14.5 billion by 2025 on a constant perimeter basis remains unchanged. What I mean by this is that as we complete the Securitized Products transaction and execute on other disposals, we'll adjust our cost and headcount targets downwards accordingly. We are on track to deliver on our cost ambitions and, as we've previously disclosed, the actions that we have already initiated in the fourth quarter are expected to represent 80% of the savings required to achieve our 2023 cost target. We will, of course, be looking for additional opportunities to eliminate duplication and drive operating efficiencies across the group. In terms of restructuring costs, for the fourth quarter, we booked CHF352 million, and I would reiterate our previous guidance for restructuring costs of CHF1.6 billion and CHF1 billion for 2023 and 2024, respectively. Touching briefly on headcount, our overall target is to reduce this by 9,000 to around 43,000 by the end of 2025 on a constant perimeter basis. And actions that we've taken in the last three months have enabled us to achieve around a 4% headcount reduction since the end of September. To summarize, our financial performance for the fourth quarter reflects the decisive actions we have taken against a difficult market backdrop. Looking forward, we expect that the strategic actions taken to reduce the group's risk profile and the challenging market conditions will continue to be reflected in our financial results. I would expect the group to report a loss before taxes in 2023 given the adverse revenue impact of the exit from non-core businesses and exposures and, of course, the restructuring charges related to our transformation. We are now well into the execution phase of our strategic transformation and have clear priorities for the weeks and months ahead as we work towards achieving the financial targets that we set out on October 27th. Let me remind you what they are. On group-wide costs, we expect to reduce our cost base on a constant perimeter basis to no more than CHF15.8 billion in 2023 and to around CHF14.5 billion by the end of 2025. With regard to the group CET1 ratio, we expect this to be at least 13% throughout the transformation period and above 13.5% at the end of 2025 pre-Basel III reforms. And by 2025, we are targeting a core return on tangible equity that is excluding the Capital Release Unit of greater than 8% and around 6% for the group, as a whole. Thank you very much. And, with that, I'll hand back to Kinner.

Kinner Lakhani

Thank you, Dixit. We will now begin the Q&A part of the conference. May I ask everybody to stick to two questions, please. Alice, let's open the line, please.

Operator

[Operator Instructions] Our first question comes from the line of Andrew Coombs with Citi. Please go ahead.

Andrew Coombs

Good morning. I guess my first question, I'd just like to come back to your commentary around being proactive on flows and winning back some of the client money. Thank you for the comments on January about Asia Pacific and Swiss Bank. I guess my question would be more broadly, as part of your proactive approach, could you provide any kind of color on what you're doing in terms of pricing? Are you putting through cuts to fees? Are you offering higher rates on the deposits? How are you going about winning back that business? So that would be my first question. My second question is on what's left of your fixed income and equities business post the SPG divestment? What is the plan for that business overall? How much is expected to be moved in with CSFB versus how much of that Markets business is to be retained by the broader CS Group? And I'd just like an idea of any thoughts on what the revenue contribution of that Markets franchise could be. You've obviously given the CHF2.5 billion number for CSFB, but presumably, that's mainly around origination and advisory retail. Any thoughts on the Markets franchise going forward? Thank you.

Ulrich Koerner

Thank you, Andrew. Let me start with the first question. So, as we were alluding to, and I'd like to reiterate that because it's really, I think, important for where we are now, where we are going throughout the year, so this client outreach program, which I was talking about, is really unprecedented. That is at least what the colleagues here in the firm tell me being here longer than 30 years. So -- and I think it has shown and has developed very good momentum and, hence, the figures I gave for January. You asked concretely about pricing. So, we try to be competitive, call it, like many of our competitors as well, so to be in the game, but we are not buying assets, just to be clear, because that would not be very smart going forward as well. So, what is also the fact, and I think that is something which all my colleagues in the bank and myself felt and the many, many clients interactions which we had nearly on a daily basis, I would say is that the client support which we get from them is really overwhelming. And I mean this something which is absolutely, for me and my colleagues, is absolutely fantastic. So, the clients, in other words, the clients want us to be successful, and that is something which we can feel and, therefore, we are so focused on delivery.

Dixit Joshi

Andrew, I'll take the second, and thank you for joining the call. The SPG transaction, as you know from our previous announcements, part of our strategy to reshape and rightsize the Investment Bank. That portfolio had in the region of around CHF75 billion approximately of assets at the end of September. We've derisked two-thirds of that portfolio overall through a combination of transactions with Apollo and the first close yesterday and other third parties in the market. And so, we're making rapid progress in reshaping the Investment Bank starting with the SPG portfolio. And we'll continue to enforce capital efficiency and balance sheet efficiency in the Investment Bank. The other leg of that stool is, of course, the Capital Release Unit, which, as I mentioned in my remarks, came into being on the 1st of January. We've moved with pace in advance of that in the fourth quarter to derisk as well. Regarding your question on First Boston -- CS First Boston, CS First Boston, we are reshaping that business as we speak to be capital-light, balance sheet efficient, as well as rightsizing headcount, as Ulrich had mentioned as well. And so, to the extent that we have synergistic businesses, they, of course, will fit well in Credit Suisse First Boston, but I would use those criteria at the outset, which is looking at cost efficiency and balance sheet efficiency as two main criteria for which businesses would fall into SPG -- into Credit Suisse First Boston. The second point I'd make is that with our macro and our markets businesses, we have rightsized those businesses. We've refocused them and, of course, aligned them towards our Wealth Management and our Swiss Bank franchise, which is a key pillar of our strategy at the outset. We will, of course, reflect our restated financials once we set up the CRU, so you'll have a better idea at that stage of the relative splits and what our new segmentation looks like. That should be in April. I hope that's helpful.

Andrew Coombs

Yes, I look forward to seeing the new splits. Thank you, both.

Dixit Joshi

Thank you.

Operator

The next question comes from the line of Magdalena Stoklosa with Morgan Stanley. Please go ahead.

Magdalena Stoklosa

Thank you very much, and good morning. I'm going to go back to the Wealth Management and to the flow situation. And I have to say, you're commenting on a clear plan to restore Wealth through profitability. So, could we just hear what's in your business plan flow-wise for 2023? But like broader, from a customer business perspective, when we look at kind of flows, deposits, custody assets, loans, how do you see those developing, let's just say, over the next 12 months on top of what you told us on APAC and kind of year-to-date numbers? So that's question number one. And question number two really is about the mix of your cost savings in 2023 as well. You've given us kind of very -- you've given us points on a slide, I think, 11 -- let me just go back there, on Slide 11 from the perspective what your priorities are. But could you give us a sense which of those points that you have detailed there actually have the biggest impact on that cost base reduction so that at least we get a sense kind of where to look at? Because, for example, on the professional services side, you've already did a lot. On the contractor side kind of workforce mix, you've already done a lot in the fourth quarter. Thanks very much.

Ulrich Koerner

Magdalena, thanks for the question. So, I would say, with respect to your Wealth Management question, what is important, that's why we gave these indications from January, the group overall, as I said, is positive on deposits; Wealth Management, globally, positive on deposits; Asia Pac, positive on deposits. And I'm reiterating that because, as you are fully aware of, the deposits are these kind of assets, so to say, which leave first and have the fungibility to reenter first. So -- and I think that is important to bear in mind. As you immediately understand, Magdalena, we do not give you business plan figures. But you can assume that in the Wealth Management plan is a fair chunk of rewinning lost volumes, lost business with our clients. And important to note here is as well that we hardly lost any client. I think that is also important. That shows you something about what I said before in terms of the relationship which we may have with our clients. Seems to be, for me, very important. In terms of the cost and, Dixit, you might add, a couple of points from my side. With respect to the CHF1.2 billion target, which we stick to, as you are aware of, for 2023, 80% of this cost reduction has been initiated and this in execution already in the fourth quarter. So, I think that is something very positive, which you need to bear in mind. So, you will see the effects coming in, obviously, quarter-by-quarter as we speak in 2023. To better understand, I would say, the overall program, I mean we are doing in forcefully, as I said, everything which we would do in that situation to reduce the cost with the more, call it, classical measures like as we were alluding to getting more efficient, therefore, leading in less headcount, reducing contractors, consultant spend, and there is room to go. This is absolutely no question, we are looking at the usual things which you apply, like how many levels in the organization, how many direct reports, all these kind of things we are working on. Having said that, and I'm saying that because this is what I would think is, call it, the first phase to get into new Credit Suisse. And then, obviously, and we are working in parallel on that one, is that we are asking ourselves and developing our new operating model for new Credit Suisse, and that needs some more work over the next few months. But I think that is important for the second phase of cost reduction, because the new operating model in itself must be designed in a way that is much more agile and much more simpler. That's why we talked about that in connection with new Credit Suisse several times.

Dixit Joshi

Ulrich, just to add, I mean, on those -- and Magdalena, good questions. I think as we reduce complexity and as we simplify the company as part of the move towards the new Credit Suisse, I think that creates larger efficiencies for us, of course, that we need to crystallize. The second point I'd make is we will keep focusing on optimizing our legal entity structure, which also has upside for our cost base. And the third point I'd make is that I mentioned in my remarks that our cost targets are very much on a constant perimeter basis. And so, for example, as we progress towards the final close of the Securitized Products transaction, we will, of course, once that's closed, also then adjust our targets accordingly. So, I think what you're going to see from us as a management team is that we will leave no stone unturned. We have levers at our disposal to drive cost, and we're, hence, confident, as you can hear from myself and Ulrich's remarks, that we're confident on delivering on the cost target.

Magdalena Stoklosa

Thank you very much.

Operator

The next question comes from the line of Jeremy Sigee with BNP Paribas Exane. Please go ahead.

Jeremy Sigee

Thank you very much. Good morning. Can I just kind of clarify further the outflow and the flow situation? And sort of two questions very specifically on that. You said that the 4Q outflows were two-thirds in October. Could you give us an idea of the remaining one-third, how was that split between November and December?

Was it sort of even across both of those months? That's my first question. And then, the second question, you said -- again, it's on a similar topic. You said that you'd had further outflows in Wealth Management in January, but at a reduced level. I just wondered how we should interpret what you mean by reduced level. Is that relative to 15% in 4Q or relative to where you were in December? That would be very helpful just to understand what you mean by a reduced level of outflows.

Ulrich Koerner

Thank you very much for the questions, both very good questions. First one, we said like two-third in October. If you look into October and November together, it's more than 85% of the outflows stemming from these two months, and that was exactly the reason. And you are aware of, before our strategy update end of October, we are not in a situation to communicate. That made it so hard in October. And that's why we started immediately at October 27, literally, our client outreach program, which travels with us -- traveled with us throughout the whole year and travels with us right now and as we speak. So, it has not stopped. So, more than 85% from October and November, which tells you now how the development was also in the last quarter. With respect to your second question, net new assets, in particular, we said we are positive, which is very good, because that's a very proactive region, growth region. We are positive in APAC with a good number for January also in comparison to other years. We are positive in Switzerland, also with a good number overall here. We are positive in a couple of smaller other geographies, but we are also still having some outflows in other regions. And that's why we gave this guidance to say, look, it's not at the moment the case yet that we can say we are all over and in every market and in every region already positive on net new assets. That's how you should read it. But again, as I said, in my eyes, the situation has completely changed from last year.

Jeremy Sigee

Great. Thank you very much.

Operator

The next question comes from the line of Alastair Ryan with Bank of America. Please go ahead.

Alastair Ryan

Yes. Thank you and good morning. So, Slides 24 and 31, if I could, please. So, Slide 31, you've now this very, very large surplus to your going and gone concern capital requirements. And as you said, Dixit, there's 30 basis points uplift in CET1 from Securitized Products and then there's this operational risk RWA reduction. So, it seems that you'll have really quite striking surpluses and, in particular, in the debt and the subordinated debt stack. So, going back to Slide 24, I can very much see why you might under-issue. Is there a possibility you might under-issue by more if you're able to execute on the deleveraging plan that you've laid out? Thank you.

Dixit Joshi

Alastair, thank you for the question. And I'm glad you've noted that because it is a change from, as you can see on the chart from the previous years, certainly the last two years where we've had a greater issuance requirement than we've had redemptions. As we simplify the balance sheet and as we execute on our strategy, and I hope you're seeing that now in the fourth quarter, certainly, as we've taken the size of the balance sheet down, the intentional pieces where we've delevered the SPG transaction, the early start of the noncore unit, you're starting to now see some of those funding efficiencies come through, and that's now reflected in this issuance plan. We set out, we said, up to CHF17 billion. Of course, the funding plan is dependent on the evolution of the balance sheet through the year, and one has to be somewhat responsive and nimble as you get through the year. But at CHF17 billion of indicated issuance versus a CHF22 billion redemption, we're starting to now really turn the corner and start setting ourselves up on a trajectory to eventually reduce our funding costs through time. A couple of things I'd highlight. In response to what you've just said around Slide 31, it does lead to the reduced HoldCo issuance, which is, at CHF2 billion, much less than our expectations would have been, let's say, at some point during last year for this year. And again, that's a reflection of the strategic actions that we're taking. On OpCo, we'll be opportunistic, as you'd expect, through the course of this year, but we've already issued CHF4 billion of an indicated CHF9 billion. And then, of the overall issuance plan, we've come out of the gates quite fast with an issuance of around 25% of the entire full year plan in January. So, we'll be responsive, but what you're going to see is a much more efficient balance sheet over time as a result of the strategic intended actions that we're taking. I hope that's helpful.

Alastair Ryan

Yes. Thank you. Can I just -- as a sort of supplemental, so I appreciate you'd expect to grow the balance sheet somewhat as you get deposits and inflows back. But those very large buffers that you've ended up with perhaps through shrinking faster than you'd expected, is it fair to assume that if you can execute, you wouldn't need buffers that big so that the sort of capital requirement goes down, but also some of those buffers that you've ended up with, in particular, that sort of 900 basis point buffer in HoldCo debt might be able to come down?

Dixit Joshi

An important observation. I mean what I'd say is if you look at the comments that I made on operational risk, as a result of setting out the strategy and then beginning to execute on it and then demonstrating that we're able to derisk, especially in the mortgage-related portfolios, as you can see, I'm giving fairly clear guidance there that in dialogue with our regulators, we would expect a lower OR requirement. Now, when it comes to really AT1 and HoldCo, of course, this is in the list of our regulators. That said, we will continue transforming the balance sheet in a manner that I think would be conducive towards lower issuance needs. But of course, that's in the hands of our regulators as well. It will be an active dialogue that we will continue having. But I think what's in our hands right now is to continue to drive the balance sheet efficiency that puts us in a position to be able to have that dialogue.

Alastair Ryan

Thank you.

Operator

The next question comes from the line of Kian Abouhossein with J.P. Morgan. Please go ahead.

Kian Abouhossein

Yes, thanks for taking my questions. The first one is on Wealth Management again, but maybe slightly differently, could you talk about the RM decline of 5% quarter-on-quarter, year-on-year by region and also how you see RM development through 2023? And in that context, could you talk about the cost as well, which clearly has continuously increased in WM? And how you see cost development on an absolute level within the Wealth Management business? And then, the second question is on SPG is, can you give us a little bit of an idea of our modeling, how we should think about the revenues and the costs that are coming out of the disposal of SPG?

Ulrich Koerner

Okay. Let me start with the first question. You mentioned the RM decline. We had certainly -- if you look into last year's somewhat heightened attrition, that's right, as you say. Nevertheless, part of that is also to be seen in the light of increasing productivity, goes without saying. So, looking ahead, I would say, very much depending on how we develop step by step to coming back into Wealth Management profitability and, most importantly, into growth, which we will, I think that might then turn around and we might add again on the RM side to the equation into Wealth Management. Let me also clearly say, we have -- I must say, we have no issues to hire, be it on the AM side, be it on other very significant and important positions. If we feel we need to hire, we have no issues to hire. A lot of people also outside from Credit Suisse are strongly buying into that story of new Credit Suisse and where we are going. And I think that is important and helpful. In terms of cost, the overall development, which you are alluding to in 2022, certainly not where it should go. I was also saying before, we have reduced headcount by like 4% already in the fourth quarter. And the cost program, which we are running within Wealth Management, is obviously an important part of the overall cost transformation program. So, if you look into 2023 and beyond, certainly 2023, you can expect lower costs in Wealth Management, both if it comes to direct costs, but also when it comes to allocated costs from Corporate Center functions.

Dixit Joshi

Kian, if I may address the second question on SPG and specifically your question on cost and modeling, I think it's part of a whole host of associated benefits for the firm. And it should be put in light of the wider derisking as well as the repositioning of the Investment Bank and resizing of the Investment Bank. So SPG, of course, is one part of, call it, capital release and business repositioning. The other is the non-core unit as well. And on both those counts, we will be giving you clearly more visibility as we do the restatements and, in the case of SPG, once we get to the final close of the transaction, which we're anticipating in the second quarter of this year. We've given some highlights on the elements that we're able to. The first one being the capital benefit yesterday as a result of the gain on sale, which approximately is in the region of 30 basis points. The second is the OR reductions with, as I mentioned, some clear guidance on the forward trajectory without being able to give you the magnitude as at the state, given that would be an active regulatory dialogue. But we have, as I mentioned, strong expectation on the direction there. The third benefit would be liquidity and funding efficiencies. And you've already seen that come through over the last quarter as we've been de-risking in the SPG portfolio, and there'll be some further efficiencies through the course of the next quarter. And then lastly, I'd mention that the, really, the reduction or the impact on our financial plan from the exit of the SPG business was built into the RoTE target that we had set out on October 27 last year. And so -- and I would also mention that our cost targets will get amended accordingly as we progress towards the final close on the transaction. So, a number of moving pieces that we will give you more clarity on as we get to the close and as we complete the transaction.

Kian Abouhossein

Thanks, Dixit. Just one more quick one. You mentioned the losses from the non-core in the IB. I missed that. Could you just repeat how it breaks down within the IB?

Dixit Joshi

Sure, Kian. We -- as we haven't re-segmented, of course, it's been IB reporting for Q4 under the old segment. The non-core, of course, will be split out when you see the results in April in that time series, but also, we'll be reporting Q1 in our new market structure. We, of course, did in advance of the non-core unit taking shape on the 1st of January. We have been disciplined on executing on our exits of products or exposures to free up capital in a manner that will benefit the shareholder, and you're seeing that come through in the fourth quarter. As I mentioned, that's about...

Kian Abouhossein

Sorry, I'm referring to the P&L. Can you -- just a simple question, can you give me the breakdown of the losses in the P&L within the IB?

Dixit Joshi

No, not yet, Kian. As I said, once you get the restatement, once we restate in the new segment, then we'll be able to provide more visibility around that. Of course, in the Q4, as you point out, of course, in the Q4 in the IB segment, we have losses related to intentional de-risking and especially accelerated de-risking that we've absorbed in the fourth quarter, which is what you're seeing coming through in the results as well.

Kian Abouhossein

Thank you.

Operator

The next question comes from the line of Daniele Brupbacher with UBS. Please go ahead.

Daniele Brupbacher

Yes, good morning, and thank you. I wanted to ask about the liquidity coverage ratio of 144%, which is a three-month average. Can you tell us where spot levels were year-end or probably now? And historically, that was closer to 200%. There was probably some reasons behind that. How should we think about it? Whether you can also structurally change some of the funding, bearing in mind legal entity constraints? So, that's one. And then, secondly, also on the capital situation, I mean I guess the U.S. business was running at 24% CET1, Q3. I don't know where it was in Q4, but how do you think about the capital distribution within the group and things you can optimize in that regard? How are you going to do that in the context of the carve-out of CSFB? Are you going to use that legal entity?

And what's the possibility to repatriate some of that capital to then really have a benefit at the parent or the group level? That would be interesting. Thank you.

Ulrich Koerner

Thanks, Daniele. With respect to LCR, 144% at the end of last year, as you said. So, what we do not do is giving spot rates here. But that's why we said, and that's how you should think about it, that's why we said it has improved since then. And if you put that all together, what I said about the overall flow situation and so on should be pretty clear, and what we are, and hence, a good question. So, assume throughout this year, we are rebuilding further the LCR ratio to an extent different levels, which is obviously, as it's immediately clear to you, driven by the whole derisking, deleveraging, which we are doing and Dixit was talking about. What we have not yet fully defined, so to say, what should be with respect to new Credit Suisse an adequate and sensible target ratio for the long term, this is certainly something which we will do once, but not yet, too early in this year because as you also immediately understand, it has a lot of questions tied into legal entity structure and so on where we are also working on. And once we are more progressed on this kind of topics, then we will be certainly in a position to say, look, and very sensible, very comfortable target for LCR should be X or should be Y. I think that's the current situation. So, we are rebuilding further.

Daniele Brupbacher

Okay. Got it.

Dixit Joshi

And Daniele, on capital, I'm glad you brought that up because if you look at the U.S. entities, in particular that you mentioned, with the exit of the SPG business and the work that we're doing towards a carve-out of Credit Suisse First Boston, our legal entity structure, our legal entity balance sheet will look quite different in places like the United States. And it's not just the U.S., but it's elsewhere as well. As we look at simplifying the organization, the derisking and simplification will lead to further opportunities for capital repatriation and efficiency. You've seen that, for example, in the U.K. entities over the last few years where we've created much capital efficiency as we execute on our legal entity simplification program. The other is I'd point you to the parent capital ratio, which as you saw was at 12.2%, partly as a function of some of the simplification benefits we've seen over the years. So, it's something that we're highly focused on and that we're going to continue driving efficiencies on.

Daniele Brupbacher

It's super helpful. Thank you.

Dixit Joshi

Pleasure.

Operator

The next question comes from the line of Amit Goel with Barclays. Please go ahead.

Amit Goel

Hi, thank you. I've got two main questions. One, I think, obviously you mentioned in 2023, you anticipate a fairly substantial loss. Just I appreciate there's a lot of moving parts, and obviously, there's a lot of things to be seen for the year. But I mean, is there any chance you can give us a bit more of a sense of how substantial? Is that largely centered in the IB, but just some sort of order of magnitude there? And then, secondly, there have been a number of articles about various changes to compensation plans, different incentives being put in place. I just wanted to get a sense of how all these things add up. And also, how do they get expensed? So, are they generally being expensed in 2023 or in future years and basically have some of these things work? Thank you.

Dixit Joshi

Amit, hi. Yes, on 2023, I mean I'll try to give you some of the building blocks, again, not in a position to give you full guidance for '23 in detail, but I'll point you to a couple of important data points. One is that the Capital Release Unit has targets for this year to deliver on our RWA and leverage efficiency and free up capital. And as you know, we built de-risking costs in respect of that into our plan. So, I would say that's the first item. The second is for businesses that we buy, the discontinued exit, as you know, as is the nature of Capital Release Units that we've seen before at our firm and elsewhere is what you have is revenues dissipate quite quickly and then you attack the cost base and that takes more time, but it's effectively a drag on PTI, which is also what we indicated to you in October with some estimates of PTI out to 2025. And so that would be the second drag we expect. And then, the third is just broader restructuring. We'd indicated that we would try and front load to an extent the restructuring expenses. You saw CHF300 million, just north of CHF300 million in the fourth quarter. This year, we've estimated around CHF1.6 billion. That was the guidance we gave in October for this year. And for next year, it's about CHF1 billion. So, you'll see the P&L absorbing those restructuring expenses as well through the course of this year. Again, we'll give a further update as we begin -- as we get through the rest of the year, but we're really three months into the execution of our strategy. And really, so when we say we'll be loss-making for this year, it's to absorb all of those costs. You asked specifically, is it the IB? It's a combination, actually, for example, our cost reduction program, it really goes horizontally across the organization. So, it really affects all of our business units and all our infrastructure areas.

Ulrich Koerner

Amit, with respect to compensation question, as you have seen, variable compensation 2022 was reduced by 50% compared to the last year, but even more significantly to previous year, so to say. And you are alluding to, I guess, to what we call the transformation award. That is an award which goes to, call it, a pretty selected, relatively small group of people in the firm. These are colleagues which, independently of hierarchy, and this is also important, independently of hierarchy, who have -- if you want additional important tasks to support our transformation and to help us with the transformation. And overall, this is not an -- in my eyes, very material amount. And the award has on top of it -- and this is also to bear in mind for you, has on top of it a strong cliff vesting element in it, which kicks in if everything gets done as we laid out. And we are convinced of that, this kicks in after 2025. So, overall, if you look through '23, '24, '25, that will not disturb your model in any meaningful way.

Amit Goel

Okay. Thank you.

Operator

The next question comes from the line of Stefan Stalmann with Autonomous Research. Please go ahead.

Stefan Stalmann

Yes, good morning. I wanted to follow up on liquidity, please. In one of your recent disclosures, you did point to some liquidity breaches in some of your subsidiaries. And I was wondering if those breaches have been resolved since then. And the second question relates to your funding cost guidance, the CHF0.5 billion increase that you mentioned for 2023. Is that relating, in a relatively narrow sense, to wholesale funding only? Or are you also allowing for some adverse pricing effects on deposits, either by trying to get them back or by having to offer more to your existing depositors? Thank you.

Dixit Joshi

Stefan, yes, happy to take both of those. On liquidity, as we said in October, pretty exceptional month for the company at that point, and glad that it's now behind us. As Ulrich mentioned, more than two-thirds of the flows occurred in October and more than 85% in October and November. And in our disclosures, we were pretty fulsome in October around some temporary breaches that we had. So, I'd highlight the word temporary because, as you say, were they resolved? Yes, absolutely. As you know, when we're operating multi-legal entity construct, we would try and retain the appropriate level of liquidity in each of the entities, but not necessarily excesses at the entity level. We would retain those excesses in the group. And then, our group treasury would rebalance in the normal course of business on a daily basis depending on flows. And so, you make an instances where you have a momentary need in an entity and then that gets cured within a day or two or three. And so, pretty comfortable with how that was dealt with, and we're in a pretty good position right now, as you're seeing from the turnaround through the quarter as well as in January. On the second point, on funding costs, and perhaps I'll address it through your deposit point first, which is that we have seen the central banks have pulled back on liquidity through the last year. We have seen a more competitive environment for deposits more generally across the industry. And so, we're also competitive in that respect on pricing. We've also wanted to rebuild our deposit base. And so, we will flex our pricing accordingly, very comfortable with the pricing levels that our RMs and our teams are going out with. And the other is, look, just once again, a recognition that deposit funding is still, on a relative basis, our cheapest source of funding and will remain so. We're pleased that we've been able to reduce, as a result of the actions that we're taking on the balance sheet, as a result of our strategy, we've been pleased that we've been able to reduce the quantum of capital market funding that we have. But as you can see, it's CHF17 billion out of a much larger balance sheet. And so, we're pretty comfortable that we're setting ourselves on a path to reduce our funding costs through time as our balance sheet evolves.

Amit Goel

Great. Thank you very much.

Dixit Joshi

My pleasure.

Operator

The next question comes from the line of Chris Hallam with Goldman Sachs. Please go ahead.

Chris Hallam

Yes. Good morning, everybody, and thank you for taking my questions. The first is essentially a bit of a follow-up to Magdalena and Kian's question earlier. One of the key pillars on the strategic update at Q3 was the pivoting of the business back to profitable core. And at the time, you mentioned the Wealth Management franchise is sort of an 18% to 20% RoTE business within those 2025 targets. But given the reduction in AUMs, and you've highlighted the business is expected to be loss-making in the first quarter, is there now a sort of a strategic decision to be made as to whether to either sort of, a, run the business as a profitable franchise at current AUM levels; or b, to try and regain assets and deliver the level of absolute profit contribution, which was embedded in that strategic plan? I appreciate the comments you made earlier on this topic, but I just wondered whether those two options are essentially mutually exclusive from a cost perspective. So that's my first question. And then, the second one is just on the strategic update, you had the objective of around $3 billion of revenues in the Markets business. And I just wonder whether that's still an objective now.

Ulrich Koerner

Okay. Chris, let me start with the first one. Thanks for the questions. So, we laid out very clearly, as part of the transformation, three main blocks of actions by the end of October, as you might remember. The first one, as you put it, the radical restructuring of the Investment Bank, and we talked about some various important elements over the last few minutes here. The second one is the cost transformation program with very, very clear guidance on the cost reduction targets, again, as Dixit was saying, excluding exits and all these kind of things that comes on top of it. And that's important to bear in mind. And the last one, which we very clearly said is we want to do that transformation out of a position of capital strength, hence, the capital raise, which was successfully -- and other measures, which was successfully concluded in November, as you are fully aware. So -- and we are executing currently against all of these main blocks of measures and, as we said, very focused, very decisively. And you see that we are in many, many aspects, if you go through the presentation, we are ahead of our plan. Second point to make here is, and that is something, as I was alluding to at least, something we are also in parallel working on is to really fill these new Credit Suisse, how we put it, bank, which will evolve here over the next couple of years with content and then, obviously, doing the same with CS First Boston on the other side. And this is something which we owe you, so to say, but it needs a bit more time as we are traveling through 2023. And once we are there, we will update you in terms of what it means then really going forward. Having said that, and that's intuitively clear to you, if new Credit Suisse is based on our Wealth Management business, our very strong businesses in Switzerland, complemented by Asset Management and by the Markets business in a resized form, I think it's intuitively clear where this business, if it runs, so to say, in the way we want to run it going forward, will end up in terms of shareholder returns. So, there must be a very, very attractive proposition for our shareholders. Wealth Management, I think it's -- if I understood the question correctly, it's not -- it's a tricky question, I would say, if you allow me. So, it's not the idea to say, okay, we lost these assets and then we take what we have and, therefore, resized the Wealth Management firm to make it reasonably profitable again. I think we do two things. We do all what is necessary on the cost side, and there is room, as I said before. On the other hand, Wealth Management is the growth engine or one of the growth engines of today's Credit Suisse, but also of the new Credit Suisse. And that is why I said we have a relatively clear plan, the client outreach initiative which we started is part of that certainly in the short term, i.e., last year and 2023. And I said it has started to create good momentum. So we want to win back all the assets, and if not more, which we lost, that goes without saying. Secondly, the growth focus in Wealth Management, strategically spoken, is very clearly on the stable high net worth business; secondly, recurring revenues, and there is enough room for us to improve, goes without saying; and then last but not least, and you know that we have super strong positions in different geographies of the world here, also regaining the ultra-high net worth wallet share. So, I think that's the overall package we are working on. And that's the way how we push back Wealth Management into profitability and into growth mode.

Dixit Joshi

Chris, if I could just answer the second question that you mentioned around the Markets business, I would say, look, not to look really at the fourth quarter, given that was an exceptional quarter for the company with all of the challenges that were there, together with the intentional repositioning and restructuring-related actions that we undertook in the fourth quarter. The Markets business is an important alignment to our Wealth Management franchise. As a management team, we're moving pretty quickly to take the actions that were necessary to restore that, the bottom-line in that business. And we're confident in the actions that we've begun taking in that franchise.

Chris Hallam

Okay. Thank you very much. That's very clear.

Dixit Joshi

Sure.

Operator

The next question comes from the line of Anke Reingen with RBC. Please go ahead.

Anke Reingen

Yes. Good morning, and thank you for taking my question. I just wanted to follow up on your -- on the benefit of higher interest rates. If I remember correctly, at the strategic update, you said around half of the 5 percentage point uplift in the RoTE is coming from higher interest rates. And I think that would imply a higher number than you show us today on the CHF900 million prefunding costs. So, I just wondered how this squares. And then on -- following up on Amit's question on the substantial loss in '23. Is it fair to assume that you also think there's a loss at the underlying level? And I think you made some comments on the news wires about 2024, if you can please clarify?

Dixit Joshi

Anke, sure. I'll -- let me run through the first. On higher NII, on October 27, when we indicated, I think we said in the region of around CHF900 million to CHF1 billion for 2025 as a result of the current term structure and market implies at the time. I think interest rates right now are slightly higher than where we were on October 27. But of course, we have a lower deposit base as a result of the events in October. On balance, it comes out roughly to a wash with around -- still around CHF900 million for the three-year period. And that's very much what was embedded into our RoTE walk as well. On the second point, on the loss for '23, as I said, look, we're focused on really restructuring our businesses. We want to take as many of the actions that we need to create the new Credit Suisse early on in our transition path. We're three months into the restructuring. We've already started, as you can see, in the fourth quarter results as well, largely premeditated intentional actions to execute on our strategy, and you're seeing that come through in the results. We'll, of course, be doing that during the course of the year in a way that is sensitive and capital accretive as possible or economically responsible for our shareholders. But we do want to move as quickly as we can on repositioning and restructuring the firm. Ulrich, if you wanted to add?

Ulrich Koerner

No, I think that's all right.

Anke Reingen

On 2024, I think you said you expect to be profitable, is that correct? And is that at the reported level? Thank you.

Dixit Joshi

That's correct. That's right. As we look to '24 with the planning assumptions that we've made, that's our current assumption.

Anke Reingen

Thank you.

Operator

Your next question comes from the line of Andrew Lim with Societe Generale. Please go ahead.

Andrew Lim

Hi. Good morning. Thanks for taking my questions. Firstly, on the core Markets business that you're mapping out there, you've talked about a net revenue expectation of CHF3 billion. But how do you expect the costs to develop for this division? You've talked about cost reductions across the whole group, but I'm just trying to zero in on the Markets division here and seeing what the core profitability might be if you take into account the cost expectations? And then CSFB, obviously, a lot of work to be done here to carve it out. Is your expectation as you carve it out to -- what's your anticipation of the net CET1 ratio impact as you complete that carve-out?

Dixit Joshi

Andrew, hi. Look, on the first on really Markets and your question on the cost base, as I mentioned before, the initiatives that we're undertaking as part of our cost transformation program are really across the horizontals. And so, of course, at the one level, we have the strategic repositioning that we've done with the exit of the SPG business. We'll have the carve-out of the Credit Suisse First Boston business. So, we have a simpler mix, and we'll exit cost along that journey. But then, we have really all of the horizontal initiatives that we've been driving for cost reduction, which will also impact the Investment Bank. So, I think what you'll see, as you're starting to see through from last year, is you're starting to see the efficiencies slowly come through, because the headcount reductions that we've undertaken in the fourth quarter will feed through into the bottom-line and going to the cost base as the quarters go along, but won't be visible in the immediate quarter necessarily. What I would say is that, look, we're committed to taking the actions that we needed to, as you're seeing, and to move with speed on those to rightsize the businesses as well in response to the revenue environment that we've seen as well. On the second point, on CS First Boston, we can't give you a specific capital impact today. Suffice to say, one of the pillars of the strategic reasoning here is very much capital efficiency as well as to generate and free up capital for the organization and for the shareholder. And that's certainly the path we're on as we work towards the carve-out and an eventual IPO for that business. Step one for us was to ensure that we commence on the initial planning for the carve-out, which we're now doing and is underway. Step two, as we've announced, was the acquisition of M. Klein & Company, which we announced this morning as well, which was an important pillar on this part of the carve-out, and we'd love to give you more details as we progress on this journey.

Andrew Lim

Great. Thank you very much.

Operator

The next question comes from the line of Tom Hallett with KBW. Please go ahead.

Tom Hallett

Good morning, guys. So, I was just wondering if you could kind of bucket the discussions around flows of client. You have over CHF90 billion of outflows in Wealth Management. What do you see as a realistic number to come back? And what is unlikely to and what is somewhere in the middle? And I guess what I'm trying to get to is, what clients are open to returning based upon what they see in terms of progression around your restructuring plan? Or others are interested in things like fee reductions, an increase in deposit rates or something like that and others that are probably unlikely to return? That's it for me. Thanks.

Ulrich Koerner

Okay. Tom, let me take that. So, as we said -- or as I said earlier, we feel that the declines are overwhelmingly supportive. What we have observed, I would say, since October, in particular, and then early November on all these client meetings, at least where I was participating and doing, as I said, typically several a day, I would say there are three groups of clients. The one group which we started to come back very quickly already last year, so after a successful capital raise, they came back, they brought money back and so on. A second group, which I tend to believe is a very large group, at the end of the day, which was a bit more careful, so I look -- let's look at that, let's look at how you are doing, how you are executing and so on, which will come back over time, I'm not saying in a run, but over time. And there's a third group, I would think relatively smaller group, which says, look, we stick with you with what we have now. After reductions, we like you, but we want to observe you a little bit longer than just, let's say, the next, whatever, a few months. So, I think that's what I felt at least from client meetings. So, to your concrete question, how much is coming back, I would like to know that as well, as you can imagine. As I said, the Wealth Management colleagues are pretty hopeful that we bring a fair part of the outflows back already in 2023, and the rest will come later. And as I said also earlier, obviously, our target is to bring all and everything back and then go beyond that.

Andrew Lim

Okay. Thank you.

Operator

The next question comes from the line of Adam Terelak with Mediobanca. Please go ahead.

Adam Terelak

Good morning. Thank you for the questions. Lots of questions on flows. I want to see more detail on deposits. Clearly, they're down more than a third Q-on-Q. Can you give us any sort of color around that by division, that by term versus site deposits; and then, the assumption around deposit costs in the NII guide through 2025 and what that might mean particularly for Wealth Management, NII quarter-on-quarter into the beginning of this year, given the repricing outreach program that is ongoing? And then, secondly, back to credit. The language around the AT1 seems to indicate that the preference will be to kind of call and reissue this year's first call date. Is that the right way of reading it? Thank you.

Dixit Joshi

Adam, hi, sure. We wouldn't traditionally break down deposits necessarily within term, site, et cetera. I mean what I'd say is, look, we're looking at deposit efficiency, of course, on our balance sheet. So, step one for us was really ensuring that we'll restore confidence with our clients and customers, and you're starting to see, per Ulrich's remarks, you're starting to see that come through. A core part of that was to ensure that we tapped the capital markets, undertook private transactions, restored CET1 to a higher level, all of the actions that I mentioned that we did in the fourth quarter, and that's now starting to come back. I would point you to the LCR ratio. Look, that's ultimately a combination of both deposits and other measures lead to us managing the LCR ratio. And the LCR ratio, as you see, is up from the lows in the quarter to an average of 144% for the quarter and, as we've indicated, has improved in January as well. So, we're three months into the restructuring. We're taking all the necessary steps. And we're starting to see, as you can see, positive momentum on deposits in January. The second question was really on really deposit costs. And I would say in the NII guide in the first quarter, it's partly why we've guided to a loss in the first quarter for Wealth Management as well is we have a reduced deposit base compared to what we had in September. You see that impacting the NII, of course, in Q4 as well, and that will also have a knock-on impact into Q1 as well. That said, the evolution from here will depend, of course, on both factors, both volume of deposits, but the other is also the evolution of interest rates through the course of this year. The corollary to this is also funding cost where, as I've indicated, we're working hard on optimizing the balance sheet and ensuring that we can squeeze as much as we can out of it and reduce our funding cost. And step one on that path was to derisk in order to reduce our funding needs and then to be able to issue less in the capital markets, which you're now seeing through our issuance plan as well. So, a combination of all of those would lead to NII efficiency.

Adam Terelak

Just a quick follow-up. The guide for NII is on a static balance sheet. The deposits you're bringing on board January to date, does that increase or decrease the NII guidance?

Dixit Joshi

We would -- look, depending on the NII evolution, we'd always amend our modeling and our calculations. That's normally what we do. In fact, in October, we've made assumptions, forward assumptions on the reduced balance sheet given the events in the first three weeks in October, which effectively reduced even from the static balance sheet that we had at the end of September, obviously, reduced the NII, which in the numbers that I've given you in October really factored in a reduced balance sheet as well. Today, when we remodel our balance sheet, we have lower balances, actual balances at the end of the year, but rates are slightly higher and the net outcome is roughly the same at around CHF900 million for NII uplift. But look, as we evolve our balance sheet, we'll give you further updates and guidance on that.

Adam Terelak

But no comment on the January cost of deposits?

Dixit Joshi

No, on deposits, as Ulrich mentioned, we're -- it's still our cheaper source of funding. We're competitive. As we've said, there's been more competition from deposits from the rest of the industry as well through the course of last year. And as always, it's an important part of our funding mix. We'll continue to remain as competitive as we need to be there.

Adam Terelak

Brilliant. Thank you.

Dixit Joshi

Sure.

Operator

The next question comes from the line of Piers Brown with HSBC. Please go ahead.

Piers Brown

Good morning. My question is actually on short-term wholesale funding. We've talked a lot on the call about the long-term debt issuance plan and also the positive developments in terms of deposit flows. But if I look at the quarterly report, you've got some quite negative wording around the impact of the November credit rating downgrades on your access to short-term funding. And I wonder if you could just address that in terms of what you're seeing more recently on access and cost of short-term funding and the impact on the IB financing derivatives businesses. Thanks.

Dixit Joshi

Sure, Piers, and I'm glad you brought that up. Look, we've been reducing our reliance on short-term funding through the course of the last year. And most importantly, the few initiatives that we've launched around restructuring the Investment Bank, derisking in the Capital Release Unit, getting the SPG transaction done, which, as you can see, we've moved really, really quickly on and with -- we're around two-thirds of the target reductions already having happened, all of those reduce our reliance on short-term wholesale funding and create more funding efficiencies as well. There's no question, of course, as we're transparent about that with the credit rating downgrade, certain facilities would have been affected. But that said, we have other tools at our disposal. We're able to do private placements and other bilateral financing as well. And ultimately, what you should look to is the LCR ratio which we're managing to, which is effectively an amalgam on a stress basis of short-term and other medium-term measures in the calculation. Hope that's helpful.

Adam Terelak

That's great. Thank you.

Dixit Joshi

Sure.

Operator

I now hand back to Kinner Lakhani for closing remarks. Kinner?

Kinner Lakhani

Great. Well, thank you, everybody, for joining us this morning. Thank you, Ulrich and Dixit. Of course, if you have any more questions, feel free to reach out to IR. And have a great day. Thank you.

Ulrich Koerner

Thank you.