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UBS Group AG (UBS) Q2 2023 Earnings Call Transcript

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UBS Group AG (NYSE:UBS) Q2 2023 Earnings Conference Call August 31, 2023 2:30 AM ET

Company Participants

Sarah Mackey - Investor Relations
Sergio Ermotti - Group Chief Executive Officer
Todd Tuckner - Group Chief Financial Officer

Conference Call Participants

Jeremy Sigee - BNP Paribas
Alastair Ryan - Bank of America
Chris Hallam - Goldman Sachs
Kian Abouhossein - JPMorgan
Flora Bocahut - Jefferies
Stefan Stalmann - Autonomous Research
Anke Reingen - RBC
Benjamin Goy - Deutsche Bank
Amit Goel - Barclays
Andrew Lim - Societe Generale
Adam Terelak - Mediobanca
Andrew Coombs - Citi
Vishal Shah - Morgan Stanley

Operator

Ladies and gentlemen, good morning. Welcome to the UBS Second Quarter 2023 Results Presentation. The conference must not be recorded for publication or broadcast. [Operator Instructions]

At this time, it's my pleasure to hand over to Sarah Mackey, UBS Investor Relations. Please go ahead, madam.

Sarah Mackey

Good morning, and welcome, everyone. Before we start, I would like to draw your attention to our cautionary statement slide at the back of today's results presentation. Please also refer to the risk factors filed with our Group results today, together with additional disclosures in our SEC filings.

On slide two, you can see our agenda for today. It's now my pleasure to hand over to Sergio Ermotti, Group CEO.

Sergio Ermotti

Thank you, Sarah, and good morning, everyone. I hope you had a relaxing summer break, for us the past eight weeks were intense, as we were busy writing the next chapter of UBS' history. This is the first ever acquisition involving two global systemically important banks. It was announced only five months ago and we closed it less than 100 days ago.

This would not have been possible without extraordinary effort and dedication from my colleagues across both organizations. It also required extensive cooperation from the Swiss Government and regulators in Switzerland and around the world.

We are swiftly executing on our integration plans, already achieving a number of important milestones. We established a target operating model, created a dedicated integration office and rolled out responsibilities with management appointments up to three levels below the Group Executive Board, just to name a few. We are also making progress on our cost savings and derisking plans, and resolving some legacy matters for both firms.

Following a detailed analysis, we determinated and added back -- we terminated and added back all Swiss Government support a few weeks ago. Lastly, we decided to fully integrate the Swiss business of Credit Suisse after a thorough strategic review.

The thing I'm proudest about is that clients have rewarded our unwavering commitment with extended trust. Thanks to their restore belief in the combined firm, we were able to swiftly stabilize the current Swiss score, its Wealth, Asset Management and Swiss Bank franchises. We are happy to see markets recognizing our ongoing work.

Our strategy is unchanged and the Credit Suisse acquisition will act as an accelerant to our plans. We will strengthen our position as the only truly global wealth manager and as the leading Swiss Universal Bank, with scaled up Asset Management and a focused Investment Bank. With a highly complementary footprint, we will reinforce our position in key growth markets, including the Americas and APAC, and built on our leadership in Switzerland and EMEA.

We will relentlessly focus on clients and continuously improve and expand our services and products. With $5.5 trillion in assets across the combined firm, the transaction adds scale that will lead to increased efficiencies. This will allow us to better focus our resources and target investments that provide superior level of client service.

We will achieve our strategy while remaining disciplined in our resource management across the entire firm. The IB consuming no more than 25% of the Group's risk-weighted assets and the round down of the Non-core and Legacy portfolio are just two of the more visible examples of our approach. In essence, we will repeat what this bank successfully accomplished during the last decade.

Before I discuss the Swiss Bank decision, let me give you a brief overview of our assessment of Credit Suisse as of March 19th. Since then and especially after we closed the acquisition in June, we conducted an in-depth analysis that has only confirmed the necessity of the decisive actions taken over that weekend. It was not just a matter of liquidity drying up.

Credit Suisse's business model and business mix was deeply flowed and its reputation severely damaged. With this structural lack of underlying profitability, unsustainable capital allocation and negative revenue and cost prospects, the bank was no longer in a position to continue on its own. This is clearly visible from the year-to-date losses Credit Suisse reported today, a culmination of the bank's two loss-making years.

Thanks to our financial and balance sheet strength, UBS was in a position to answer our risk goal [ph] from the Swiss Government, helping to stabilize the financial system. Importantly, the transaction preserves the best of Credit Suisse's excellent client relationships, people and industry-leading products that in other plausible scenarios would have been weakened or lost.

Unlocking Credit Suisse's strength as part of UBS will allow us to build some things of a more enduring value for all stakeholders. This combination will reinforce our status as a premier global franchise, one that our own markets, Switzerland can be proud of. We are humbled by this task and the responsibility entrusted to us.

But let me make one thing absolutely clear. Our ability to stabilize Credit Suisse and return the government guarantees in a timely fashion should not take away from the gravity of the situation we inherited, nor should it diminish the scope and scale of the task ahead.

So that being said, let me walk you through how we come to our decision on the future of Credit Suisse Schweiz. As I promised when I returned as a CEO a few months ago, the decision would be driven by facts, not emotions and mindful of the extraordinary circumstances of the transaction.

We conducted an extremely thorough review involving teams comprised of some of the best people across both firms with support from external experts where needed. Our analysis focused on four key aspects that for us, would determine the long-term viability of the business. We examine what the decision would entail for our clients, shareholders and employees and we gave special consideration to financial and funding sustainability.

We started with a broad spectrum of possibilities ranging from IPO, sale, partial or full integration to a spinoff and even a dual-brand strategy. Eventually, based on our criteria, we narrowed down our selection to the two best options, a full integration or a spinoff of a focused perimeter, which would exclude segments requiring global capabilities. The final outcome was crystal clear. Full integration is by far the best choice.

It is not just that the financial merits of integration are greater. It is also the best way forward for our clients for whom the industry-leading offering will improve and broaden as we combine products and capabilities from both firms.

The alternative would have been a bleak one. Considering the current situation, combined with the necessity to carve out most of its global capabilities. Even a more focused spinoff of Credit Suisse right would fail to meet the needs of many of its corporate clients, as well as the entrepreneurs, it considers core.

At the same time, separation from the Group would entail a costly, risky and lengthy carve-out of technology platforms, causing uncertainty for clients and employees for years to come. Moreover, our analysis revealed a substantial dependency of the Swiss subsidiary on financial resources and operational support from the parent.

As a result, it would have existed as a fragile entity struggling to close its funding gap, unable to compete effectively and failing to deliver sustainable returns. We believe this would not have been an acceptable proposition for clients, employees and very likely regulators.

By contrast, being a part of UBS ensure it will have continuous banking from one of the most stable and trusted global financial institutions. The strength of UBS will underpin the franchise and provide access to efficient funding as demonstrated by our ability to return all extraordinary government and central bank facilities.

We take our social responsibilities very seriously. This is why I have repeatedly emphasized the fact that employment-related consideration must be a key decision-making factor in our evaluation. We have analyzed their impact in both absolute terms and in relation to the Swiss job market.

Every last job is painful for us. Unfortunately, in this situation, cuts were unavoidable regardless of the selected scenario. We are committed to minimizing the impact on employees by treating them fairly, providing them with financial support, outplacement services and retraining opportunities. Our aim here is to enable those affected to take advantage of a quite healthy Swiss job market, where more open positions in finance are available than there are job seekers.

Let me emphasize the vast majority of the cost reduction will come from natural attrition, retirement and internal mobility. Around 1,000 redundancies will result from the integration of Credit Suisse Schweiz. This will be spread over a couple of years, starting in late 2024.

Importantly, the alternative spin-off scenario -- in the alternative spin-off scenario, restructuring would also have been necessary and resulted in about 600 redundancies. In addition, the necessity to profoundly restructure other parts of Credit Suisse is expected to lead to about 2,000 additional redundancies in Switzerland over the next couple of years.

After waiting all the above factors, we come to the view that a full integration is the best way forward. Our decision reinforces our commitment to clients, employees and the Swiss economy. Our goal is to make the integration and the transition for clients as smooth as possible.

The two Swiss ring-fenced entities will operate separately until their planned legal integration in 2024. Credit Suisse brand and operation will remain separate during that time. We will gradually migrate clients onto our system and expect to finish this process in 2025.

Given this, nothing will change for clients in the foreseeable future and they do not have to take any immediate action. We will continue to provide the premier levels of service that they have come to expect, and with the time, they will begin to see the further benefits of the combined franchise. As we progress in the integration, we remain fully committed to our personal, private, institutional and corporate clients.

In terms of lending, thanks to our even stronger capital base, our intention is to keep the combined exposure unchanged. We are sensitive to the important role both firms play in the lives of our employees and their communities.

We want to remain an employer of choice in Switzerland, offering attractive career opportunities. Last but not least, as we combine, we will honor all agreed sponsorships of civic, sporting and cultural activities in Switzerland at least until the end of 2025.

I have made it aboundantly clear to our colleagues that they must not be distracted by the integration. We cannot take our eyes of our vision and must remain focused on client needs. After all, competition in the Swiss market remains robust.

The cantonal banks in aggregate will continue to have the highest market shares in all relevant Personal and Commercial Banking products and our branch network even after the merger is the third biggest. We welcome the challenge. Competition is what makes all of us better and what makes the Swiss financial system stronger.

Now given the events leading up to the acquisition, stabilizing the Credit Suisse client franchises globally has been our most immediate priority. Since closing in June, we have won back clients' confidence as evidenced by the positive asset flows and strong engagement across Wealth Management and the Swiss business.

We saw formidable momentum in deposits with $23 billion in inflows for the quarter, $18 billion of which come into Credit Suisse's Wealth Management and Swiss Bank. Meanwhile, UBS Wealth Management has delivered the highest second quarter net new money performance in over a decade. We are pleased to share that this positive trend has carried on into July and August.

While the quarter is not over yet, so far, we have attracted net new assets of $8 billion for the combined wealth management businesses. It is encouraging and rewarding to see the franchise stabilize so quickly, winning back the more than $200 billion of client assets that left Credit Suisse over the past year won't be easy, but recapturing as much as we can is one of our top priorities.

Let's move to assets that have been designated as Non-core. First, let me briefly touch on the $9 billion risk-weighted assets that will be included in the combined Investment Bank. These assets were selected through a disciplined process designed to enhance our Global Banking and derivatives operations.

The transfer businesses are expected to be accretive from next year. They will help drive economies of scale, while adding only 13% to the Investment Bank's current non-op risk-weighted assets. The remaining $17 billion of Credit Suisse's Investment Bank, as you can see from the chart, will be transferred to the newly formed Non-core and Legacy unit.

This will also include Credit Suisse's entire Capital Release Unit, as well as selected assets from the combined Wealth and Asset Management businesses that are not aligned with our risk appetite or strategy.

Overall, the Non-core and Legacy will comprise of $224 billion in LRD with a significant portion of high quality and liquid assets, and $55 billion in risk-weighted assets including -- excluding op risk risk-weighted assets.

With the perimeter largely defined, we are already executing on our strategy to exit these assets in a timely and efficient manner. We made a good start in the second quarter, reducing positions representing a total of $9 billion in risk-weighted assets. Around half of those come from sales that we actively pursued.

As I mentioned before, this is not the first time our organization has managed a successful round down of Non-core assets. Our previous experience is a big part of why we are confident in our ultimate success. A clear priority for us is to take out a substantial part of the operating cost associated with this unit. I will touch on that in a minute.

Thanks to our strong capital position and markdowns we took as part of the PPA adjustments, we have substantial flexibility in order to optimize the outcome. These are not distressed assets so we can maintain positions if they preserve value.

Our decisions whether to do so will be based on economic profitability, taking into account funding, operating and capital costs of the portfolio. On those positions, we do decide to exit, we will move at pace, acting fairly and protecting our clients and counterparties.

The natural run-off profile is a steep one. As you can see from the chart, we will have a 50% or $27 billion reductions in non-op risk risk-weighted assets by 2026 and a similar reduction in LRD. But let me assure you that our proactive approach to accelerate the wind down will continue.

Now let's turn to cost reduction. A key element of returning to profitability and creating sustainable value across the combined firm. First, as we speak, we are actively addressing the need for deep restructuring at Credit Suisse. This is an acceleration and expansion of the work that the firm itself, so as necessary to put a stop to losing money.

Secondly, additional efforts are required to generate synergies across the combined businesses. We aim to take out over $10 billion in gross expenses from the combined franchise based on full year 2022 cost base. Around half of that will come from restructuring the Investment Bank and running down Non-core assets. The other half will come from actions across the rest of our operations.

There is meaningful duplication that can be removed, thousands of applications and IT platforms to be decommissioned and underserved legal entities to be merged or closed to make us more efficient and effective.

Let me give you an example, of Credit Suisse's current 3,000-plus IT application, only around 300 will be integrated into UBS infrastructure, contributing to our combined future business model.

Importantly, we will continue investing to make our platforms and processes more resilient and support our existing and future growth ambitions. We will also absorb some further inflation. All told, we aim to bring the Group's underlying cost/income ratio exit rate below 70% in 2026.

We are two and a half months into one of the biggest and most complex bank mergers in history. We are executing our plans at pace and wasting no time in delivering value for all our stakeholders, including shareholders.

In the next four months to six months, our focus will be on restoring underlying profitability, while progressing on other areas, including business transformation, client migration and simplification of our combined legal entity structure.

On the latter, a key milestone will be the merger of our parent operating entities, UBS AG and Credit Suisse AG. This step planned for 2024 will allow us to simplify our structure and operating model, optimize capital and liquidity within the Group and will support achieving our cost savings ambitions. We expect to substantially complete our integration program by 2026.

A key pillar of our strategy is to maintain a balance sheet for all seasons, one that supports our capital generative business and allows us to offer attractive capital returns. We expect to operate at around 14% CET1 capital ratio over the medium-term, and as we exit 2026, we aim to achieve an underlying return on CET1 of around 15%.

As you know, we have suspended share repurchases for the time being, but we remain committed to growing our dividend and returning excess capital to shareholders through buybacks. We will update you on our plans in this regard with the fourth quarter results.

With that, let me hand over to Todd.

Todd Tuckner

Thank you, Sergio. Good morning, everyone. It is a privilege to be with you today as Group CFO, especially at this watershed moment for UBS. Since my appointment, my focus has been on the financial consolidation of the two firms, progressing the work done on transaction adjustments, optimizing our liquidity and funding position, firming up our cost savings and enhancing financial reporting controls for the expanded group.

Regardless of whether staff come from Credit Suisse or UBS, I've been extremely impressed with the dedication of the finance team. I'm proud of what we, as a unit, have already been able to accomplish, and we, like the entire firm continued to execute at pace. We recognize that this is a complex deal, but our aim is to be clear and forthcoming in explaining the financial implications of our actions during this critical period and beyond.

Today, I'll cover our second quarter operating performance, the impact of the merger on our balance sheet and capital as of day one, and finally, our integration plan and outlook. Let's start with the quarter on slide 17. I'll refer to UBS Group AG's consolidated results, which this quarter include one month of Credit Suisse's operating performance presented under IFRS and in U.S. dollars.

On a reported basis, the second quarter profit was $29 billion, both pre- and post-tax. These results were largely driven by the net impact from items related to the acquisition, principally negative goodwill of $28.9 billion and integration-related expenses and acquisition costs. Excluding these items, the Group pre-tax profit was $1.1 billion, of which $2 billion from the UBS subgroup and negative $0.8 billion from the Credit Suisse subgroup.

Turning to slide 18. The negative goodwill of $28.9 billion is calculated as the difference between the consideration UBS paid and the fair value of the acquired net assets after taking into account the various PPA adjustments of negative $25 billion.

The roughly $6 billion difference between the negative goodwill reported today and the amount included in the Form F-4 registration statement just prior to closing is principally explained by two factors. First, Credit Suisse generated operating losses over the first five months of 2023 that were not captured in the F-4, which was prepared as if the transaction occurred on December 31, 2022. Second, we applied additional net negative PPA adjustments to Credit Suisse's financial assets and liabilities, reflecting a more detailed fair value assessment post-closing.

The total net PPA adjustments of negative $25 billion consists primarily of marks of negative $14.7 billion in connection with financial assets and liabilities. This includes negative $12.4 billion on mainly fixed rate accrual assets and liabilities, of which around $8.5 billion relates to our core businesses and around $4 billion to Non-core and Legacy. In addition, we made negative $2.3 billion of further necessary adjustments to fair value positions, mostly related to Non-core and Legacy.

The negative $8.5 billion of marks on core business accrual financial instruments, include for example, PPA adjustments on the Swiss mortgage book, which were almost entirely interest rate driven. The majority of the accrual basis positions are expected to mature within the next three years to four years and if held to maturity will pull to par.

Of the total marks on accrual positions, $6 billion pre-tax or $5 billion net of tax, our CET1 capital neutral as FINMA has granted us transitional relief, which mainly applies to Swiss mortgages. The transitional treatment is subject to linear amortization concluding by June 30, 2027.

The negative marks of $2.3 billion on fair value assets and liabilities that I mentioned earlier, reflect UBS' assessment of the complexity, liquidity and model risk uncertainties in the book, as well as the relevant markets for potential strategic exits.

We also made PPA adjustments of negative $4.5 billion to capture UBS' determination of Credit Suisse's provisions and contingent liabilities related to litigation, regulatory and similar matters. This includes $1.5 billion of incremental provisions Credit Suisse took in the second quarter.

Other net PPA adjustments totaling to negative $5.5 billion largely relate to GAAP differences associated with pension accounting, but also goodwill and intangibles, and fair value marks on non-financial assets and liabilities, including software and real estate.

Of the total negative $25 billion of PPA adjustments, negative $17 billion is CET1 capital relevant, with the balance relating to the $5 billion regulatory waiver I mentioned earlier and other items that are filtered out of CET1 capital, such as pension accounting differences, goodwill and intangibles.

Overall, we believe the negative goodwill, including the PPA adjustments therein, in addition to underpinning almost $240 billion of acquired RWA provides us with sufficient capacity to absorb the cost to achieve our two key savings objectives; first, an efficient wind down of the Non-core businesses and associated overhead we acquired; and second, positive operating leverage and synergies in our core franchises, all while remaining capital generative over the integration time line.

We are highly confident that we can successfully integrate Credit Suisse, enhancing our business model and operating metrics, while continuing to ensure we maintain world class capital ratios and a balance sheet for all seasons.

On page 19, we illustrate how the transaction strengthens key financial measures from day one, offering us a highly attractive starting point as we commence this journey. Since the acquisition, our capital position is even stronger with almost $200 billion total loss absorbing capacity and a CET1 capital ratio of 14.4%.

Additionally, our tangible book value per share is up 49% quarter-on-quarter, and today, we manage over $5.5 trillion of invested assets with a unique and meaningful presence in all the major markets across the globe.

Remaining on capital on slide 20. The strength of our balance sheet is the foundation of our success and the reason why we were able to restore financial stability and client trust in such a short amount of time.

As of the end of June, as just mentioned, our CET1 capital ratio was 14.4% and our CET1 leverage ratio was 4.8%. Included in our capital ratio this quarter are the impacts from the closing of the Credit Suisse acquisition, including a $10 billion operational risk RWA reduction from diversification benefits and a combined lower forward-looking risk profile.

Looking through to the end of the year, we expect our CET1 capital ratio to remain around 14% as the benefit of RWA reductions, improvements in our underlying profitability mainly from cost saves and CET1 capital relevant pull to par effects from the PPA adjustments are expected to largely but not fully offset integration-related expenses. We also expect to maintain a CET1 capital ratio of around 14% and a CET1 leverage ratio of more than 4% over the medium-term.

You have often heard us referring to our balance sheet for all seasons and our capital-generative operating model that allows us to service clients and invest in the business through the cycle. It's how we've operated over the last decade and it's how we intend to continue to operate going forward. So rest assured, maintaining a balance sheet for all seasons will remain among our very top priorities.

On liquidity and funding on slide 21, we closed the quarter with an average liquidity coverage ratio of 175%, well above our prior quarter level and a net stable funding ratio of 118%. The liquidity coverage ratio increase largely reflects the elevated HQLA levels at Credit Suisse, including the effect of the usage of the Swiss National Bank facilities.

As Sergio highlighted, positive net new deposits in the past few months enabled us to repay ELA+ and terminate the public liquidity backstop facility as announced earlier this month. We expect to continue attracting net new deposits, and as of this week, we've already seen in the third quarter, $13 billion of positive net new deposit flows in our combined Wealth Management and Swiss franchises. While this will help us narrow the inherited funding gap and continue to manage our liquidity coverage ratio at prudent levels, we expect to resume execution of our funding plans shortly.

In addition to maintaining significant liquidity and funding buffers on a consolidated basis, we're actively managing the allocation of financial resources among our significant legal entities, which also have standalone funding requirements and will continue to operate, while we progress towards our target legal entity structure.

We're working towards merging Credit Suisse AG into UBS AG in 2024 as this is a critical step to removing resource allocation bottlenecks and enabling the realization of business and operational efficiencies.

Now on to slide 22. Excluding Credit Suisse's performance in June, the effects of the acquisition I mentioned earlier and a gain on sale of $848 million in Asset Management last year, UBS' pre-tax profit in the quarter was $2 billion, up 12% year-over-year.

Before turning to the UBS subgroup business division, starting on page 23, let me first point out that for the second quarter, the negative goodwill, as well as a substantial portion of integration-related expenses have been retained and reported in Group functions.

Starting with the third quarter, we intend to consolidate the reporting of our business divisions across the UBS and Credit Suisse subgroups, and will report integration-related expenses in the respective combined segments. All references to figures are in U.S. dollars and comparisons are year-over-year unless stated otherwise.

In Global Wealth Management, we delivered net new money of $16 billion, the strongest second quarter in over a decade, with inflows across Switzerland, EMEA and APAC, and despite $5 billion in seasonal tax payments in the U.S.

We also delivered net new fee generating assets of $13 billion or an annualized growth rate of 4% with positive flows across all regions, as well as net new deposits of $5 billion. These strong inflows across net new money, fee-generating assets and deposits, demonstrate our continuous focus on active client engagement and the trust our clients place in us. This was especially important during a quarter where the macro backdrop and developments with Credit Suisse placed a premium on our investment advice and the stability of our GWM franchise.

Profit before tax was $1.1 billion, down 4% despite strong growth in EMEA and Switzerland of 15% and 9%, respectively. Positive topline contributions from all regions outside of Americas supported a 1% revenue increase, which was more than offset by higher expenses.

In the Americas, revenues were down 4%, mainly as net interest income reflected continued rotation into higher yielding deposits and investments from transactional and suite deposit accounts. Although, we expect NII in the Americas to continue to tick down sequentially from ongoing cash sorting and deleveraging in the current rates environment, we nevertheless continue to see the U.S. market as a strategic priority for us and hence we continue to invest in the business for future growth. As a result, we expect our pretax margin in the Americas to be low double-digit to mid-teens over the near-term.

On to total GWM revenues. Net interest income was up 14% year-over-year and down 3% sequentially. The latter reflecting mix shifts and lower deposit and loan balances, partly offset by higher deposit margins.

Recurring net fee income decreased 3% due to negative market performance, while positive inflows were offset by client's continued repositioning into lower margin solutions. As a reminder, we bill based on daily balances in the Americas and on month-end balances everywhere else. As such, second quarter revenues did not fully reflect June's market rally, which we're seeing benefit the third quarter.

Transaction-based income decreased 6%, impacted by investor uncertainty, particularly in Americas and APAC. However, towards the end of the second quarter and into the third quarter, we're seeing a pickup in both client sentiment and transactional momentum, especially in APAC.

Operating expenses ex-litigation, integration-related expenses and FX were up 3%, driven by increases in technology and personnel expenses.

Turning to Personal and Corporate Banking on slide 24. We delivered another record quarter, excluding past one-off gains. Profit before tax was up 54% to CHF612 million. Revenues increased 24%, with increases across all revenue lines, highlighting continued momentum in the business.

Net interest income increased by 45% year-on-year and 12% quarter-on-quarter. Sequentially, we continue to see loan growth, while the deposit base remained roughly stable.

Costs were up 9%, driven by continued tech investments and higher personnel expenses. The cost-to-income ratio was 51%, a 7-percentage-point improvement year-on-year, demonstrating strong positive operating leverage.

We saw a strong momentum with 10% annualized growth in net new investment products and almost 6,000 net new clients, reflecting the trust our clients continue to place in us.

Moving to slide 25. In Asset Management, the profit before tax was $90 million. Excluding last year's gain on sale, total revenues decreased 5% with lower net management fees driven by market headwinds, asset mix, as well as lower performance fees. These headwinds were partially offset by 1% lower costs.

Net new money in the quarter was strong at $17 billion, a 6% annualized growth rate. Net new money excluding money markets and associates was $19.5 billion, with positive momentum in SMAs and alternatives.

Turning to slide 26. In the Investment Bank, the profit before tax was $139 million. The operating environment for the Investment Bank's trading businesses was defined by significant lower equity volatility levels compared to the prior year period. Within Global Markets, this resulted in a meaningful decline in client activity levels across both equities and FRC, where revenues of $1.5 billion were down 11%, broadly consistent with our peer group.

Our financing business continued to deliver strong results, reporting its best second quarter and best first half on record. This demonstrates the resilience of our balanced portfolio of risk-efficient businesses as we continue to invest in capabilities that are critical to our clients.

Global Banking revenues of $371 million were down 2% as the second quarter saw the global fee pool hit its lowest quarterly level since 2012. In the second quarter, we significantly outperformed the fee pool in EMEA and gained share in global M&A.

Operating expenses were up 2%, predominantly on higher tech investments, offsetting lower provisions for litigation, regulatory and similar matters.

On slide 27, I now turn to Credit Suisse AG's full second quarter results, which were separately published earlier today. Credit Suisse AG's reported pre-tax loss for the second quarter was CHF8.9 billion. This result includes several large items, including $2.2 billion in adjustments to fair value marks, $1.8 billion in software write-downs, $1.3 billion in additional litigation provisions and $1 billion for a goodwill impairment. Stripping out these and other items that are not representative of Credit Suisse AG's underlying performance in the quarter, the adjusted operating loss was CHF2.1 billion.

Not included in this figure are the results of a few legal entities that fall outside of Credit Suisse Ag's consolidation scope. Including those entities, the Credit Suisse subgroup's pro forma second quarter adjusted operating loss was CHF2 billion. In discussing the Credit Suisse subgroup performance in the second quarter, I'll focus on this CHF2 billion adjusted loss as it better informs the starting point for the Group in combination with UBS' quarterly underlying performance.

On slide 28, Credit Suisse's quarterly adjusted pre-tax loss was largely driven by operating losses in the Credit Suisse Investment Bank and the Capital Release Unit, as well as elevated funding costs in Credit Suisse's Corporate Center.

Sequentially, revenues declined by 38%, driven by Credit Suisse's Investment Bank down 78%, where the sharp drop in revenues was due to little to no new activity in the context of expected exits following the acquisition. Second quarter revenues also reflected elevated funding costs, primarily from the Swiss National Bank facilities.

Going forward, we'll focus on two key priorities in relation to Credit Suisse's Investment Bank and Capital Release Unit. First, rebuild activity and profitability levels of the businesses we decided to retain as part of our core Investment Bank. Second, actively manage the wind down of businesses and positions that are not aligned to our strategy. These include those already in the Credit Suisse Capital Release Unit and Investment Bank not retained as core and will be managed and reported within our Non-core and Legacy segment beginning in the third quarter.

Moreover, as the wind down is executed, we'll decisively take out all costs in relation to resources, technology and real estate that are not needed to support either what is retained in our core Investment Bank or what is strictly required to efficiently wind down businesses and positions managed by our Non-core and Legacy team.

In contrast to Credit Suisse's Investment Bank and Capital Release Unit, we saw relative stability across Credit Suisse's Wealth Management, Swiss Bank and Asset Management segments. In Credit Suisse Wealth Management, we've seen a stabilization of net new assets trending from substantial outflows in April to net inflows in June, with $14 billion of net new deposits in the quarter. We remain focused on introducing Credit Suisse's clients to the unrivaled value proposition of the combined firm to counterbalance any headwinds to our flows from lag effect stemming from past or future attrition of Credit Suisse relationship managers.

In addition to clear and decisive actions to retain client assets, we also implemented Client Adviser Incentive programs with a clear objective to win-back and sustainably retain client assets. Quarter-to-date, these actions have helped us to attract net new deposits of $10 billion and positive net new assets in the Credit Suisse Wealth Management franchise.

Credit Suisse's adjusted operating expenses were down 10% sequentially, reflecting actions initiated before and after the merger announcement, as well as voluntary attrition of employees. As of the end of the second quarter, headcount was down by over 8,000 compared to the end of 2022, split roughly equally between internal and external staff.

I now turn to slide 29. On an illustrative and underlying basis, the sum of the UBS subgroup pre-tax profit of $2 billion and the Credit Suisse subgroup pre-tax loss of $2.2 billion after translation to U.S. dollars, equals a combined pro forma Group operating loss of around negative $0.3 billion.

You can consider this indicative level as a useful starting point to contextualize the trajectory of our underlying profitability going forward and assess the steps we are taking to achieve our ambitions.

First and foremost, we're executing on our cost reduction plans at pace and we expect positive combined underlying profits in the second half of 2023. We expect to deliver underlying exit rate cost savings of over $3 billion by the end of the year, which will benefit our 2024 results and to incur a broadly similar amount of integration-related expenses in 2H 2023. While neutral to our underlying performance, I would note that such integration-related expenses will be partly offset by pull to par effects of over $1.5 billion.

Second, asset and deposit retention and win-back initiatives will continue to support the positive momentum across our Wealth Management businesses. In particular, we expect to see positive underlying contribution from the Credit Suisse Wealth Management franchise by the first half of 2024. We will apply the same systematic approach to client and asset retention and win-back across all of our core franchises, especially following today's announcement in connection with the Swiss businesses.

Third, our second quarter 2023 pro forma results include $550 million of funding costs related to the Swiss National Bank facilities that Credit Suisse reported in its Corporate Center. The repayment of these facilities will lead to materially lower funding costs in the third quarter and further benefits in the fourth quarter for the combined Group.

Continuing on the NII topic, sequentially for 3Q 2023, we expect a low single-digit percentage decline in our combined Wealth Management businesses with positive contribution from the Credit Suisse franchise and a mid-single-digit percentage decline in our Swiss businesses. This excludes the pull to par effects I mentioned earlier.

These elements in combination with disciplined resource management and a focused execution mindset across the leadership team give us confidence in our ability to deliver a successful integration, starting with approaching breakeven in the third quarter and returning to positive underlying profitability before the end of the year.

With that, I'll hand back to Sergio for his closing remarks.

Sergio Ermotti

Thank you, Todd. As we speak, the geopolitical and macroeconomic outlook remains volatile and difficult to predict. But, of course, major developments on this front will impact our business in the short-term.

As always, our first priority is to stay close to clients and help them manage the challenges and opportunities presented by this uncertain environment. For us, this is business as usual and we remain focused on this priority.

At the same time, we are -- we will also execute on our integration plans with the termination and pace. That will unlock significant economies of scale, allowing us to fund future investments as we continue to pursue growth opportunities.

We are well aware of the additional trust and responsibility that accompany this transaction. We will not be tray that trust, remaining faithful to our strong culture and conservative risk management.

I'm excited about the opportunities that lie ahead of us. I strongly believe UBS will emerge as a stronger global financial institution, one of even greater value to its clients, while remaining safe and delivering superior returns.

With that, let's get started with questions.

Question-and-Answer Session

Operator

[Operator Instructions] First question is from Jeremy Sigee from BNP Paribas. Please go ahead.

Jeremy Sigee

Good morning. Thank you very much for all the information. There is a lot to get through and a lot of questions. I'll just ask two things. One is, could you talk about the Swiss integration, which obviously takes time, and I think you said, it's going to legally close in 2024 and then physically integrate in 2025. I just wondered what determines that timeframe and how you manage, how you intend to keep the businesses stable, whilst they're in that slight sort of limbo period. So that's my first question. And the second question is about sort of capital stack. The 14% CET1 target, I imagine it implies that you're going to reissue AT1 and rebuild the AT1 part of your capital stack and I saw a headline the other day that you might even do that this autumn. I just wondered if you can comment on that aspect, your intentions in terms of issuing AT1? Thank you.

Sergio Ermotti

Thank you, Jeremy. So, well, first of all, on the integration, of course, now that we go through -- as I mentioned, it's very important to understand the sequence of how we're going to go through the merger of the different legal entities.

We -- as I mentioned before, our intention is to merge the two parent company, UBS AG and Credit Suisse AG, and as a follow through, different entities underneath, we'll go through the same process. So we need to optimize the timing from a different aspects and last but not least, also the one of regulatory approvals.

So we are starting now the process to do that in terms of the Swiss business. The way we will manage that is by, as I mentioned, first of all, assuring that all people employed in the Swiss businesses at UBS and Credit Suisse will not be subject to any redundancies until the end of 2024.

So what's the most important message is to clients that nothing changes for them and our view is to make it very smooth for clients to go through the transition. And so once we go through this kind of legal process and regulatory process of merging the two entities, we did -- at the same time, we are also tackling the IT migration, the operational migration and this is something that will only be completed early on in 2025.

So what we -- the message here is to -- is a balance between showing the way forward to our people, to clients, but without rush and in a stable manner so that people -- our clients continue to be served in the way they expect to be served.

In terms of the CET1 target, well, of course, AT1 continues to be an important element of our capital stack and strategy. I will not comment on speculations of this. We are watching the market carefully. We will assess the timing and the need of tapping the markets when appropriate. But, yes, of course, we are looking at the AT1 markets and we will make our consideration when appropriate.

Jeremy Sigee

Very helpful. Thank you.

Operator

The next question is from Alastair Ryan from Bank of America. Please go ahead.

Alastair Ryan

Yes. Thank you. It's Alastair, BofA, and Sergio, good morning, and great to have clarity on the strategy, and obviously, the market is delighted as you are that the flows have come back. Just then on operating costs, very clear ambitions and it looks like you're bringing forward a little, 27 to 26 when you've landed everything. But just given the size of the operating costs in the old Credit Suisse Investment Bank and Non-core, can you give us any sense about how quickly you can go there. So the -- a large restructuring charge, integration charge in the second half, but does that cost number move out quickly so that you normalize profitability or is there still quite a long tail to the cost in that part of the business. It's just IB classic, the revenues have gone, the costs are still lingering how quickly they go? Thank you.

Sergio Ermotti

I'll pass it to Todd.

Todd Tuckner

Hi, Alastair. Yeah. In terms of the speed at which we expect to take out costs, as Sergio and I said, we've been operating at pace in terms of the cost takeout, which is among our top priorities in terms of, in particular, restructuring, the parts of Credit Suisse that need immediate attention and restructuring and so you see how we're making very strong progress out of the gate in terms of the cost takeout through the second half of 2023 and the cost to achieve those cost take out as well.

We've obviously modeled to get to the targets that or the landing zones that we described earlier in terms of returns and a cost income ratio at the end of 2026. But as you say, that the costs do have a long tail in some cases and that's because of the complexity of the operation that we have to unpack, because you have significant infrastructure and technology, you have a very large array of legal entities, over 1,000 legal entities that have to be addressed.

And just back one proof point on the software components. There are 3,000 applications and the work that our team has done suggests that we will only integrate 300 into UBS. That takes time, and so, yes, there is a long tail that you can count on us to operate quickly.

The last thing I would say is in terms of clarity on a sense of as those things hit through, because we give a degree of clarity through the second half of the year and we give sort of our landing zone, we will come back with further clarity once we do the business planning process in the second half of the year and that will be with our fourth quarter earnings in early February.

Sergio Ermotti

And I would probably complement Todd's observation, because it's very important that, the fact or the vast majority of the assets in Non-core and Legacy are supported by the Credit Suisse IB platform.

So as we progress in winding down, call it, the core day-to-day operation from the front office standpoint of view, whatever is left is going to be Legacy infrastructure, IB infrastructure that is only there for Non-core.

And so you can see how then this will be a very important element in determining how quickly we get rid of Non-core assets, because as a consequence of that, we accelerate the winding down of this operation. So, but I think, it's exactly what we are working on and we will give you more detail in early on next year when we present our Q4 results and our three-year plan.

Alastair Ryan

Thank you.

Operator

The next question is from Chris Hallam from Goldman Sachs. Please go ahead.

Chris Hallam

Yeah. Good morning, everybody, and thanks for taking my questions. Just two from me. First, in Wealth Management, you've talked about now essentially being at scale in every growth market globally. But in tangible terms, what does that enhance scale enabled you to do that perhaps you weren't able to do previously and have you seen any proactive response from competitors and reaction to that enhanced scale? That's my first question. And then, second, looking at the Banking business in Switzerland. Now the dust has settled, does all the volatility we saw earlier in the year changed at all, how you think strategically about running the combined Swiss Bank speed in terms of capital funding, liquidity, et cetera. I guess just sort of simply has your risk appetite changed in Switzerland?

Sergio Ermotti

Thank you. So, well, I mean, look, in terms of scale, of course, there is an economic -- economy of scale. So being able to leverage UBS' IT platform as we onboard all the assets, it's a huge advantage, because we have, call it, marginal cost effects.

But also when you look at the geographic footprint of the two operations, they are extremely complementary in some areas by relationships, but also in geographic terms, i.e., for example, in Brazil, right? So we had a lot of operation, Credit Suisse is much stronger. We now create a very important player.

In Asia, we really reinforced our position and both in North Asia and Southeast Asia. I think that in Switzerland is quite clear and also across Europe where there are different markets where ideally, it’s a very fragmented market in general, Wealth Management, particularly in Europe. So there, we create economy of scales and things that we would have not been able to fund from an organic standpoint of view. So it’s very important.

As I mentioned before, also Credit Suisse across the Board in Asset Management and Wealth Management brings capabilities and excellent products that can be then leveraged into our -- into the UBS client franchise.

Have we seen competitors? Yeah. I mean, the reaction of competitors, of course, they started to take advantage of the fragile situation of Credit Suisse already during 2022, late 2022, of course, at the beginning of the year and it’s a pretty normal situation.

So, now having said that, I think that, as you saw from the flows, clients are now comfortable and they understand the value added of the franchise, we are able to retain and actually re-attract by clients. So now it’s our turn to be proactive and we will not spare any efforts to regain back any lost assets.

So in terms of the Swiss, as anything -- is anything changing? I mean it’s very important to reiterate that nothing changes in the way we run our Swiss businesses until they are fully integrated, right?

So from a client standpoint of view, like -- and in service and risk and capital allocation, nothing changes. And even after we merged our commitment, as I said in my remarks, is that we will continue to sustain the combined lending book. Of course, there are exceptional risk situations, but our principle is very clear.

One and one makes two. We want to keep our market share in Switzerland. Switzerland is strategic, absolutely strategic for the Group and we will not want to lose any of the market share we have today.

Chris Hallam

Great. Thank you very much.

Operator

The next question is from Kian Abouhossein from JPMorgan. Please go ahead.

Kian Abouhossein

Yeah. Good morning, Sergio and Todd. Thanks for taking my question. First question is on risk-weighted assets, you have around $557 billion, $145 billion operational risk-weighted assets. And I'm just wondering how we should think about the exit run rate in 2026 in terms of total risk-weighted attract, as well as in terms of operational risk-weighted assets, if I may? And then second question is related to the Non-core. Could you talk a little bit about the P&L effect of the Non-core ex any four active write-downs or sales, so to say, leading to potential write-downs. I'm just trying to understand the P&L in terms of run rate of the Non-core and Legacy bank, if I may? Thank you.

Todd Tuckner

Hi, Kian. In terms of the op risk RWA, we will come back next quarter after doing a fair bit of additional modeling in terms of the op risk RWA of the combined bank. We've started to have initial views on that and initial discussions with our regulators and that informed the $10 billion reduction that I spoke about in my comments.

And then in terms of the trajectory and how we think about the $557 billion towards 2026, you'll have more color on that in terms -- after we complete the business planning process and 3YSP and come back early next year as mentioned.

In terms of the -- you asked about the P&L and the run rate in Non-core. So what I would say on that is, so first off, it's -- the thing that's most important is to take costs out and to focus very significantly on the cost takeout, because there's a significant level of overhead and costs that aren't associated with the wind-down of the portfolio.

So the way to think about it is that, we have emphasized so far today that we have to take costs out and effectively the cost that sit in parts of Credit Suisse that don't work. And so those costs, whether they be personnel costs or whether they be technology costs or real estate costs, they move into Non-core and Legacy if they don't support the core businesses and they have to be run down extremely quickly. And so I would say, first and foremost, it's a cost -- the way to think about it is the cost rundown over the integration time line.

Then there's the asset run down and we talked about the trajectory from a natural rundown perspective, and of course, as Sergio mentioned, that will be strategically and actively looking at that.

And of course, we -- from that perspective, we have taken some PPA adjustments in excess of $5 billion relating to Non-core and Legacy. I think that's a useful way to think about to the fact that some of that pull to par and some of that will be fair value positions.

And we will manage that book on the most capital-efficient way that we can and dispose of positions as appropriate. And also keeping -- and yeah, just considering funding costs and the cost of operations, technology, people, et cetera.

Kian Abouhossein

Okay. Thank you. If I may just very briefly, on the risk-weighted assets, if I have to take a very simplistic view and I just assume, yeah, I know the runoff, I can make some assumption about Basel IV and then up risk, clearly, very difficult to predict. If I want to be conservative, one would assume that, ultimately, the risk-weighted assets conservatively should not grow if at all, would materially decline?

Sergio Ermotti

Kian, it's -- we can't really comment right now. We are modeling. We are really going through the details of the plan. We need to really also go through the exercise, I'm sure you appreciate, when we put together legal entities, the optimization of all that, it's a fairly complex operation. So it's -- I wouldn't go into a territory of projecting risk-weighted assets going forward.

Because, one, there are two elements -- well, three elements. The starting point is a good starting point. We know that we can make some adjustments in the next three months to four months. Op risk was one of the subject.

But then you need to go through, first of all, what are the efficiencies we take out as we run down assets? Yes. What are the efficiency on optimizing legal entity operations? And then what is the growth? Because remember, we are going to grow as well and we have to attach also that prospect into the equation. I wouldn't go into too much of a risk-weighted asset projection until you see what we tell you in Q3 and Q4 -- for the Q4 results.

Kian Abouhossein

Very helpful. Thank you.

Operator

The next question is from Flora Bocahut from Jefferies. Please go ahead.

Flora Bocahut

Yes. Good morning. Thank you for taking my questions. I'd like to go back actually to some of the elements you have discussed on this call already, especially the NCL. Maybe trying to help us understand how much of the RoCET1improvement towards 2026 is going to be driven by this unit, considering only the natural runoff here, trying to help us assess already at this stage what -- how loss making it is today and how loss making it would end up being in 2026, if you only consider the natural runoff? And then the other question I wanted to raise is on the cost saves. Just to make sure I understand correctly. So you basically have already a target of $3 billion cost saves on an annualized run rate at the end of this year, but this is compared to the end of 2022, I think. So how much of the annualized $3 billion do you kind of already have in the Q2 accounts, please? Thank you.

Todd Tuckner

Thanks, Flora. So in terms of take the -- just maybe address the second point first. In terms of the cost saves in the -- in terms of what we're projecting by the end of the year at $3 billion in terms of what we see already in the second quarter. We haven't disclosed that specific number. But I think from just the headcount reductions that I mentioned in my remarks, you could probably consider that there's somewhere more than, around half has already started to hit through and what we're already seeing in our underlying results.

In terms of the RoCET1 and how to think about NCL as we go through the process. I mean, for sure, NCL is going to be something that weighs down on our RoCET1 naturally, just given the fact that we have significant -- at least over the 2024 to 2026 period. If you just look at the natural profile rundown, which is effectively a basis for how we started thinking about the RoCET1, not the only way we started to model it, but for sure, one of the ways that we were thinking about it.

here's a drag by definition in the sense that by the end of 2026, you could see in the slide, the natural profile has roughly half going away. Now we can model different scenarios as can you, but we're not going to discuss how we're thinking about it, and obviously, some of that is still very much unknown.

In terms of the cost take out, we would expect to be taking out the lion's share of the costs in Non-core and Legacy by the time the integration is materially complete. By definition, we would do that. There will be -- we expect some residual carry that we'll have to take on or continue to run down beyond 2026. So there is some, if you will, negative burn that is associated with NCL in our modeling.

Flora Bocahut

Okay. This is helpful. Thank you.

Operator

The next question is from Stefan Stalmann from Autonomous Research. Please go ahead.

Stefan Stalmann

Yes. Good morning and thank you very much for the presentation. I have two numbers questions, please. So the first one is on capitalized software. You have taken these roughly $1.8 billion of software impairments in the PPA. Can you give us a rough sense of how the -- how much of a remaining amount of capitalized software remains in your Group accounts that relates to CS and is there a risk of further impairments given that you want to retain only about 10% of these systems? And the second question relates to your capital requirements. So you showed it still at 10.6% CET1 over risk-weighted assets. If we were to apply the current capital metrics that is outlined in Swiss Banking Law, what would be the capital requirement if there was no FINMA transitional forbearance, please? Thank you very much.

Todd Tuckner

Okay. Hey, Stefan. In terms of the capitalized software, as you say, $1.8 billion was the amount that was in the Credit Suisse AG reported number today. I think in the PPA number overall, in total, there was slightly more about $2 billion. You can look at the CS balance sheet from year-end or Q1, Q2 or Q, sorry, Q1 or year-end and see there was a capitalized software in the neighborhood of $3 billion.

So effectively what we have done is taken two-thirds down and have one-third left on a shorter economic useful life that aligns with how we think about; A, the time it's going to take just to fully decommission everything; and B, leaving what we think we still get value from at the end. So all that has been sort of factored into the PPA. So I don't see necessarily further impairments. But because we now have just what's left about $1 billion that will have a shorter economic useful life that aligns to how we're thinking about the restructuring.

Sergio Ermotti

Yeah. Stefan on…

Stefan Stalmann

Okay.

Sergio Ermotti

… CET1, I think, when you look at the fully implemented regime in Switzerland, which is not applicable to us until 2027. It would be around 12.5%, 12-point-plus. And that's -- the reason why we raised our the CET1 ratio was both to reflect a buffer there to accommodate for the restructuring, but also it's a clear, call it, small front running of what we expect to come as a consequence of that and our -- and the finalization of Basel III, which is partially already in our books. So you can count on this number to be calibrated with a pretty medium-term -- medium-to-long-term expectation of the current interpretation of all regulatory regimes worldwide, including Switzerland.

Stefan Stalmann

Great. Thank you. Thank you very much.

Operator

The next question is from Anke Reingen from RBC. Please go ahead.

Anke Reingen

Hi. Thank you very much for taking my questions. The first is on revenue dissynergies. I mean, listening to your comments and especially that you think you can keep this risk market share unchanged? Is it something you really think maybe people get overly concerned and you don't see quite bad risk of revenue dissynergies, even if you potentially have to contact some of these with more attractive rates or incentivizing your advisers? And then, secondly, on slide 15, where you show us our -- the return path and the block about the funding cost efficiencies and it's something you, I guess, apart from the drop out of the higher expense of funding at Credit Swiss, is there other areas where you see the material benefits from lowering funding costs and overall Group benefits, because it block is the same size as the cost price prioritizing, obviously, you can maybe elaborate a bit more about that area? Thank you.

Todd Tuckner

Sergio, do you want to go first?

Sergio Ermotti

Okay, Anke. Let me take the first question. First of all, I haven't said that we will keep our market share. I said that our ambition is to keep the market share. Now having said that, it's Credit Suisse lost market share and business in the last 12 months or so. So what we count on is the fact that, we will be able to recapture and regain some of the market share and what you saw lately in the last couple of months is a good sign of that.

But of course, we are not -- we are realistic and we are also factoring in that we may lose some market shares, because some clients may or may not feel that they want a certain concentration risk. So there is no danger of us budgeting or planning blue sky scenarios on that one. We are realistic, but that should not be confused with our desire to keep as much as we can.

Anke Reingen

Okay. Thank you.

Todd Tuckner

And Anke, on the second -- actually, yeah, the second question, in terms of material benefits we see, you obviously highlighted the most significant one, which will be just the takeout of the significant costs that we were wearing in connection with the PLB and the ELA+ facilities.

But I would say, and as I remarked earlier, that we expect the positive contribution from the Credit Suisse Wealth Management franchise in our NII in 3Q and that comes principally from having stabilized the business and net new deposits that are also helping on NII. So I would say that's another factor that is helping on the underlying profitability.

Anke Reingen

Okay. Thank you.

Operator

The next question is from Benjamin Goy from Deutsche Bank. Please go ahead.

Benjamin Goy

Yes. Hi. Good morning. Two questions from my side. The first, to play devil's advocate, are there more outflows to come where you've kind of already had out for some clients, but maybe some longer term structures, partnerships or anything like that take time to see the outflows? And then, secondly, for the first time in a while your CET1 capital is higher than your tangible book value or almost the same. So is there now the 15% return on CET1 should it also be broadly similar to RoTE going forward or should we expect more moving parts towards, yeah, 2026. Thank you very much.

Sergio Ermotti

Hey. Thank you. Let me take the first question. I guess, as I mentioned before, now we are -- on the Wealth Management broader perimeter, I think, that what's -- of course, we may still have a client adviser that's resigned over the last three months, four months or that as they move into a new organization, they may be able to bring some assets with them.

What we see right now is clear that, the ability of the people that left a while ago to really move assets it's fairly limited. And this is nothing new compared to what UBS went through 10 years ago or more than 10 years ago in recognizing that there is a lot of institutional loyalty of the client base.

And now that we have stabilized the franchises, of course, we are even stronger in retaining assets. And as I mentioned before, our desire is to re-bring back assets. So, look, the movements -- the gross movements are going to be very difficult to predict, but the net outcome, we feel pretty comfortable will be positive.

Todd Tuckner

And Benjamin, in terms of the return on CET1 versus RoTE impact, I'd say, there are two factors that do argue in favor of moving in that direction, just not yet, but for sure, on the first one, the denominator effect were bigger and so that's obviously going to make the difference between the historic RoTE versus RoCET1 smaller by definition. So -- and that -- so that denominator effect is now in play and it is helpful as you suggest, probably, as well contributing to what you observed.

The other one, though, which has been our historic delta that really has given us pause to move off what we think is a more meaningful return measure, our DTAs. But there, of course, as they amortize down, because these generally -- no -- not exclusively, but generally relate to very old losses that we're now continuing to just chip away at as that balance comes down, then that's yet another factor that would argue in favor of moving to the other measure.

Sergio Ermotti

Well, by the way, for the foreseeable future and from the other angle of measuring our capital return flexibility, the CET1 ratio is a better proxy, because this is the true binding constraint.

Benjamin Goy

Okay. Fair enough and very clear. Thank you.

Operator

The next question is from Amit Goel from Barclays. Please go ahead.

Amit Goel

Hi. Thank you. Thanks. A lot of good information. The first question was -- I appreciate there's a lot of moving parts. We're going to spend a bit of time trying to kind of update estimates and all that kind of stuff. But in terms of the path for the RoCET1 to get to that kind of 15% 2026 exit rate, are you able to give any color in terms of expectations for 2024, 2025 or how you'd like it to trend? And then, secondly, just on the costs, it would be great if you get a bit more color on the savings. So I'm just kind of curious, things like $10 billion of gross, but how much net saving or how much reinvestment of that do you expect to do where you found the incremental $2 billion versus the $8 billion and also how you're spending the $12 billion restructuring, because it does seem like quite a big number. So just wondering if there could be benefits there as well? Thank you.

Todd Tuckner

Yeah. So as mentioned in terms of color -- further color on the trajectory as to we get end of 2023 to end of 2026, we'll come back on that provide update in 3Q as to where we are, but then a much more fulsome perspective after our business planning process is complete by the end of the year into early next year.

In terms of the cost savings, as Sergio also made remarked in his comments, the gross number is greater than $10 billion, as you highlight, but we will be making investments. We're going to grow our business, we're going to invest in technology, we're going to also deal with inflationary factors if need be.

So we -- that's all in the thinking around it, around half of the gross cost saves related to effectively restructuring the Credit Suisse IB and CRU units and the other half gross relates to the synergies we expect to realize, but then that will be -- there'll be investments back into the technology and the people to grow the core franchises.

Operator

The next question is from Andrew Lim from Societe Generale. Please go ahead.

Andrew Lim

Hi. Good morning. Thanks for taking my questions and thanks for all the detail. So, firstly, on the fair value markdowns that you've taken there. Related to that, could you give an idea of the maturity remaining on those financial assets and how we should think about the reversal of those markdowns. So you've highlighted more than $1.5 billion for the second half of this year. Is that the kind of run rate that we should be expecting going forward? And then, secondly, on the NCL, perhaps, I can ask it a different way. Do you have a better idea now of what the ultimate cumulative losses might be from the NCL, would they be less than the $5 billion maybe that you might have been exposed to under the LPA agreements? That's my question. And then, thirdly, might I quickly ask on the domestic side, certainly for some businesses, you will have a significant market share and I wonder if there's any maybe regulatory risk that, that market share might be looked at and you'd be forced to bring it down to a level, which is more palatable to the regulators? Thank you.

Sergio Ermotti

Yeah. Because you asked three questions instead of two. I'll take the last one. On the market share one, as you know, we got regulatory approvals to basically not be subject to any competitive constraints and that was done just to secure and be able to communicate and to be able to place.

Although, it was already crystal clear as it is today, that there is no market share topics for the combined unit in Switzerland. I mean, if you go across the Board, cantonal banks are larger on any dimensions of relevant Personal and Commercial Banking business in Switzerland.

When you measure in terms of branches, we are combined the third largest player. So now this is very relevant, but because some people may argue well, the cantonal banks are combined versus you being on unit. Well, the fact, the true of the matter is that we compete in those cantons with the local cantonal banks, it's extremely relevant to make that difference.

Therefore, we will, of course, contribute what the competitive authorities have to say about it and put our views into that. But I don't really expect that on a fact based discussions, we will be subject to any limitation or meaningful limitations in respect of our activities going forward.

Todd Tuckner

Andrew, let me just unpack your first and second. I think they're related. So on the first, as we highlighted earlier, we took around $15 billion of fair value marks on financial assets and liabilities, $12.5 billion where we indicated would pull to par, because they relate to accrual accounted positions, another roughly $2.5 billion related to fair value positions where we had marks -- further markdown in light of sort of liquidity model risk, other type issues.

On the piece that pulls to par, just keep in mind that, $4 billion of that $12.5 billion relates to Non-core and Legacy. So that's important to know and about $8.5 billion more in our core businesses.

On the core business piece, generally speaking, we see three years to four years that we should unwind between 70% and 80%. There will be a longer tail, especially on some fixed rate loans that will go longer than that. So we'll see pull to par effects that extend beyond the three-year to four-year timeframe, but most of it will accrete to income over the shorter timeframe, as I mentioned.

To the NCL point, though, since we have roughly $4 billion of the pull to par in NCL and roughly $2 billion in the fair value marks. So you have $5 billion to $6 billion of fair value adjustments in NCL.

And I think to go to your second question, that's important to understand, just given that we think that the positions are appropriately marked, and from here, we will continue to consider all of our optionality in terms of running down the portfolio, as Sergio mentioned earlier, in the most capital and cost efficient way. But we think the positions are being carried at appropriate levels presently.

Andrew Lim

That's great. That's really helpful. Thanks.

Operator

The next question is from Adam Terelak from Mediobanca. Please go ahead.

Adam Terelak

Good morning. Thanks for taking the questions. I want you to get under the hood a little bit more in Wealth Management. Firstly, on the CS business acquired, clearly, there were some business exits to worry about from -- that you see Non-core in kind of the Wealth Management unit. Can you give us a sense of what the revenue attached to that might look like, but also any detail on AT1 cost savings that's come through the NII in that division as well? And then, secondly, the competitive environment, I noticed in your GWM business, UBS standalone costs are up on lower revenues. I just want to know kind of what the cost is to retain managers at this point, whether you're seeing kind of a competitive landscape on the RM side or the adviser side, but also in your deposit side, what sort of campaigns have you been running to re-attract deposits and how easy or difficult has that been in the current rate and deposit environment? Thank you.

Todd Tuckner

Thanks, Adam. On the second one, I would just say, in terms of GWM costs. So there's a very significant positive operating leverage outside of the U.S. So that's important to note. This is in the GWM, sorry, in the UBS subgroup GWM, very significant positive operating leverage. We were investing for growth in that business, but that business as well has been -- saw a strong NII performance and had strong PBT growth, as I highlighted in my comments earlier.

As I also highlighted, it's more on the GWM overall side, just the fact that we've seen a lot of cash sorting and rotation on NII in the Americas and that sort of pulled the Americas revenue down reasonably significantly, say, quarter-on-quarter, year-on-year. And as a result, we see that negative operating leverage, but we're continuing to invest in that business across the Board and so some of that as well contributes to the higher costs.

On your deposit campaign question, I would say that, like any bank, we are value deposits. We value deposits in the win-back context in Wealth Management. We also do value deposits to fund our business loan growth, et cetera. So there's nothing I've seen that I would call out there in terms of deposit betas that have moved in a direction I would consider to be anything other than what we see across peers.

In terms of the acquired, you were asking business exits and the revenue attached. At this point, we have, in terms of what's being expected to move into Non-core and Legacy that was highlighted on one of the earlier slides. The revenue attached with that business is less than $100 million on an annualized basis in terms of net revenues in terms of what's moving across, and that's, of course, not risk adjusted for -- and so that needs to be considered.

In terms of AT1 cost savings that hit through the business from what had been, say, anything there has really just been captured in the Credit Suisse Corporate Center as an offset potentially to the inflated costs. So I would expect that, that will normalize now as the businesses come together.

Adam Terelak

So all funding it seems that in the Corporate Center indeed?

Todd Tuckner

Can you repeat? I wasn't clear, sorry.

Adam Terelak

So any funding noise, AT1 versus liquidity facility was also in the Corporate Center rather than in U.S.?

Todd Tuckner

That was our understanding from Credit Suisse's practice pre-acquisition. Yes.

Adam Terelak

Okay. Thank you.

Operator

Next question is from Andrew Coombs from Citi. Please go ahead.

Andrew Coombs

Yeah. Good morning. It's Andrew Coombs from Citi and thanks for taking my questions. Two, if I may. First, I want to come back to a follow-up on the PPA pull to par effect, but in relationship to the restructuring charges. You made the comment that out to the period at the end of 2026, I think, restructuring charges will be largely but not wholly offset by the PPA pull to par effect. And then in your later comments, you talked about $12.5 billion of pull to par effect, of which $4.5 million would be Non-core and that most of that will be recognized in the three-year to four-year timeframe. So can we assume restructuring charges of the magnitude of 12.5% and can you give us a feel for the timing of those relative to the PPA pull to par? And then the second question is on slide 29, you provide a useful quarterly trajectory going from minus 0.3% in Q2 when you talk about breakeven in Q3. But you also flagged $750 million of savings, $550 million of funding cost savings. There's a $650 million arguably one-off ECL charge on the non-credit impaired CS portfolio this quarter. So just trying to understand, they're going from minus 0.3% to zero percent, even with all of those additional benefits Q-on-Q, what's the offset? I guess there'll be some seasonality on revenue, a bit of a decline in NII, but any more color there?

Todd Tuckner

So -- hi, Andrew. In terms of the -- yeah, in terms of -- I'll take the second point first, in terms of the story on the underlying profitability. Yeah, I mean, just to be very clear that, the cost saves that we expect to see by the end of 2023 of $3 billion, which we think you can price into 2024.

Some of that has been realized, but as I would -- the way I would think about it is there is work that's ongoing and we expect that the $3 -- the greater than $3 billion number is something that we'll see at the end of the year hitting through.

I would continue to reemphasize the funding cost point that was in 2Q that will benefit 3Q and fully in 4Q that helps and then the stabilization of as flows and all that will sort of hit through as we go on an underlying basis. And as I said, we expect to break even in the third quarter coming out of sort of $3-- roughly $300 million plus improvement and then to be positive in 4Q for the reasons that I mentioned.

In terms of the restructuring, you asked about, we'll come back in further details in terms of how much restructuring specifically they'll be. We're giving a perspective that we expect the number to be broadly offset by the pull to par effect. But at this point in time, we're going to need to detail that out through the business planning process and come back, as we have said, in -- with our fourth quarter earnings.

Andrew Coombs

Thank you.

Operator

The last question is from Vishal Shah from Morgan Stanley. Please go ahead.

Vishal Shah

Hi. Thank you so much for the questions. My first one is on Wealth Management. Just wanted to get a sense on how you are assessing the business overlaps in that segment or you've had further chance to sort of look at different regions and how to respond to all the ongoing competitive pressures and in terms of relationship managers and then sort of bankers in that segment. So if you could give a bit of an update on that side? And then the second one is on the investment bank the CS Non-core perimeter of $55 billion. I know in one of your slides, you have provided a natural runoff rate. But I was just trying to get a sense if you could provide any sort of color in terms of what is your sort of ambition on actively winding down this perimeter in terms of time line, i.e., could we expect the next two years basically by 2025, broadly, most of this rundown to be done. Is that a fair assumption or are you looking at it in a bit of a different way? Thank you so much.

Todd Tuckner

Hi, Vishal. I mean, I think, on this -- on that second question, we've addressed that in the sense that, we offer the natural rundown just given, of course, we have to take care and ensure that we're protecting our counterparties and we're doing things in the best interest of the firm. And so on these positions that we will look strategically to exit them as quickly as possible.

But at this point, I would say, we'll come back and give you progress as we've done already in 2Q in terms of the actual RWA reduction relative to the natural runoff profile, we'll continue to do that and to the extent we can give more color through any -- through our planning process, we will. But again, these are positions where we think naturally, there will be strategic exits and opportunities that arise and not something we'll be disclosing.

In terms of your first question on Wealth Management and assessing business overlaps. I mean, in general, the way we approached integration is to look at Credit Suisse is adding value in a lot of the areas in which we already operate.

But also, as Sergio mentioned, areas where we have less of a presence. Brazil was mentioned, there are important parts of the Middle East, where that's the case, important parts of Southeast Asia, also much bigger in Europe overall.

So in terms of assessing the overlaps, I mean, in the end of the day, relationship managers have their client relationships and we want to retain them all, and of course, we're looking at how to manage the business in the most efficient and effective way.

I would make one additional comment, which is very important, which is that, Icade [ph] announced the area market heads on a combined basis and that was very important just in the last several weeks and it was in comment, Sergio, made as well, because when we start integrating how we approach the market. And so we're in the market on an integrated basis, which, of course, just took time just -- even though we've moved quickly into two and a half months since we've closed to be in the market on an integrated basis having market heads that have now been decided across Wealth Management on a combined and integrated basis is quite a step that helps us to manage some of the business overlaps and competitive pressures that you were asking about.

Vishal Shah

Okay. Thank you so much.

Sergio Ermotti

It was the last answer-and-question. And we -- I'm sure we're going to have a chance to stay in touch between now and November 7th when we announced the Q3 results. For the time being, thank you for dialing in. Thanks for your questions, and well, as I said, looking forward to staying in touch. Thank you.

Operator

Ladies and gentlemen, the webcast and Q&A session for analysts and investors is over. You may disconnect your lines. We will now take a short break and continue with a media Q&A session at 10:45 CET. Thank you.

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