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# UBS Group AG (UBS) Q3 2024 Earnings Call Transcript

Oct. 30, 2024 8:45 AM ET | **UBS Group AG (UBS) Stock**

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## Q3: 2024-10-30 Earnings Summary

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EPS of \$0.53 **beats by \$0.16** | Revenue of \$12.36B (5.72% Y/Y) **beats by \$1.21B**

UBS Group AG (NYSE:[UBS](#)) Q3 2024 Earnings Conference Call October 30, 2024 4:00 AM ET

### Company Participants

Sarah Mackey – Head, IR

Sergio Ermotti - Group CEO

Todd Tuckner - Group CFO

### Conference Call Participants

Kian Abouhossein - JPMorgan

Chris Hallam - Goldman Sachs

Giulia Miotto - Morgan Stanley

Stefan Stalmann - Autonomous Research

Jeremy Sigee - BNP Pariba

Amit Goel - Mediobanca

Anke Reingen - RBC

Andrew Coombs - Citi

Benjamin Goy - Deutsche Bank

Piers Brown - HSBC

### Operator

Ladies and gentlemen, good morning. Welcome to the UBS Third Quarter 2024 Results Presentation. [Operator Instructions] At this time, it's my pleasure to hand over to Sarah Mackey, UBS Investor Relations. Please go ahead.

### **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 included in our annual report, together with additional disclosures in our SEC filings.

On Slide 2, 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. Our strong financial performance in the quarter with a net profit of 1.4 billion and an underlying PBT of 2.4 billion, together with our year-to-date results demonstrates the power of our unique client franchises, diversified business model and global scale. It also represents continued progress on the integration. This brings us two important benefits. First, it increases our confidence level in achieving our short- and medium-term financial targets. Second, it allows us to offer the full range of services of the combined bank and to stay even closer to clients. We are better positioned than ever to help them navigate a market background that while constructive, still exhibits periods of high volatility and dislocation.

Our commitment to serving clients is reflected in a 9% year-on-year increase in underlying revenues, with notable strength in the Americas and APAC. Invested assets across the group increased by 15% year-on-year to 6.2 trillion. This shows that our wealth and asset management clients continue to value the capabilities we provide across our advice platform and the way in which we consistently innovate to meet their needs.

One excellent example is the positive client and general partner reaction to the launch of our unified global alternatives units, which has created a top 5 player in alternatives. In Switzerland, while we faced the expected headwinds on net interest income, we continue to deliver on our commitment to acting as a safe and reliable provider of credit to the economy, with around CHF 35 billion of loans granted or renewed in the quarter. Within the Investment Bank, our investments in global markets supported robust performance in equities, notably in the Americas. And in Global Banking, we maintained our momentum in advisory as we outperformed the global M&A fee pools for the third consecutive quarter. As importantly, our M&A pipeline continues to build.

Turning back to the integration. The finalization of our preparation work during the quarter allowed us in the last 2 weeks of October to successfully achieve another milestone. We moved all of the clients' account and data in Luxembourg and Hong Kong onto UBS platforms. The next significant milestones for 2024 are the client account migrations in Singapore and Japan expected by year-end. We will then kick off the next phase of Swiss migrations in the second quarter of 2025, positioning us well to enhance the client experience and unlock further cost reductions towards the end of 2025 and into 2026.

In noncore and legacy, we continue to simplify our operations through book closures and the decommissioning of applications. This has supported the significant year-to-date reductions in costs. And thanks to our active wind-down efforts, the natural runoff profile of the remaining positions is already in line with our 2026 risk-weighted assets ambition. At the same time, we remain focused on identifying opportunities to further improve the round-down profile, but we'll continue to do so without compromising economic value creation.

The overall disciplined progress on the integration, including the completion of the legal entity mergers has significantly mitigated the execution risk of the Credit Suisse acquisition. This, combined with the strong performance of our businesses has allowed us to generate capital well ahead of our plan and guidance. As we prudently assess future capital requirements, business plans and profitability for the coming years, we feel it is important, our current group capital position better reflects excess capital available for growth and returns to shareholders. Consequently, we have voluntarily accelerated the phase out of the remaining transitional capital adjustments agreed with our regulator, which we had disclosed upon the closing of the acquisition. This brings our CET1 capital ratio to 14.3%, more in line with our guidance, while remaining -- while maintaining a strong capital position and a balance sheet for all seasons. This buffer was never considered for distribution and its removal has no impact on our ability to execute on the ongoing 2024 share buyback nor on our medium-term ambitions for dividends and buybacks. As already communicated, we will provide more details on our 2025 capital return plans, including the continued execution of buybacks with our fourth quarter results. Our ambition for 2026 capital returns to exceed preacquisition level is unchanged, subject to our assessment of any proposed requirements from Switzerland's ongoing review of its capital regime.

I want to emphasize that our focus extends beyond meeting the current needs of our clients, executing on the integration and delivering on our short-term plans. We are also preparing for the future by continuing to invest in our people, products and capabilities to strengthen our client offerings and position our business for long-term growth. This includes investing in our industry-leading cloud infrastructure as well as our expertise in artificial intelligence and automation. This will accelerate generative AI adoption, increasing efficiency and effectiveness. One example of the many ways we are leveraging AI is through Microsoft Copilot with 50,000 licenses being rolled out between now and the end of the first quarter. We are implementing the largest deployment of Copilot within the global financial services industry to date.

Another example is Red, a proprietary new AI assistant that provides 20,000 employees in Switzerland, Hong Kong and Singapore, with easy access to UBS product information and investment research. Investment Bank, we are piloting a proprietary AI algorithm that researches compiles potential merger and acquisition by site targets. In this and the many other AI deployments that are underway across the entire firm, we are focused on responsible AI as we provide our people with tools that will help them better manage their businesses.

Even as new technology is changing the way we work, our people will remain the most important driver of our success. That is why I'm particularly pleased with the positive results from a recent employee survey, which, by the way, it's an important testament to the progress we have made on the integration. 84% say that they are proud to work for UBS, and 83% would recommend UBS as an employer, both well above industry benchmarks.

We have achieved a lot over the last 18 months as we are building a stronger and even safer version of UBS that all of our key stakeholders can be proud of. But there is no room for complacency. We are just about halfway to restoring preacquisition levels of profits and returns on capital, and the journey won't be a straight line. In the short term, in addition to seasonality, ongoing global macroeconomic developments, geopolitical conflicts and the upcoming U.S. elections create uncertainties that are likely to affect investor behavior. We continue to help clients navigate this environment, and I remain confident in our ability to deliver on our financial targets as we position UBS for long-term sustainable growth and remain a pillar of economic support in the communities where we live and work.

With that, I hand over to Todd.

### **Todd Tuckner**

Thank you, Sergio, and good morning, everyone. Throughout my remarks, I will refer to underlying results in U.S. dollars unless stated otherwise. Also, starting today, I compare our performance to the prior year quarter since we now have fully comparable year-over-year information for the first time since the Credit Suisse acquisition last year. I continue to offer sequential insights on balance sheet, net interest income developments and our progress towards achieving our gross cost save targets by the end of 2026.

Starting on Slide 5. Profit before tax in the quarter increased over 2.5x to 2.4 billion, with strong operating leverage improvement year-over-year, contributing to a return on CET1 capital of 9.4%. Total revenues rose by 9% to 11.7 billion, driven by momentum in our asset gathering businesses and Investment Bank. At the same time, operating expenses declined by 4% to 9.2 billion as we continued to execute on our integration and efficiency plans. These results also contribute to a strong year-to-date performance with a 9-month pretax profit of 7.1 billion, and return on CET1 capital of 9.2%.

Turning to Slide 6, which illustrates our progress in improving profitability over the last year. The net profit for the quarter was 1.4 billion with an EPS of 0.43. As illustrated on the slide, the increase in underlying pretax profit was driven by higher revenues, paired with lower costs and CLE. On a reported basis, PBT was 1.9 billion, including 0.7 billion of purchase price allocation adjustments in our core businesses and integration-related expenses of 1.1 billion. Our tax expense in the third quarter was 502 million, representing an effective rate of 26%. For the fourth quarter, we expect additional revenues from purchase price allocation adjustments of 0.5 billion, integration-related expenses of 1.2 billion and an effective tax rate of around 35%.

Turning to our quarterly cost update on Slide 7. Operating expenses increased by 2% quarter-on-quarter and were flat excluding the effects of U.S. dollar softness against the Swiss franc and pound sterling in which we incur substantial personnel costs. When also excluding increased variable compensation linked to revenues and lower litigation reserve releases, operating expenses reduced by around 200 million sequentially or 2%. This was supported by a lower overall employee count, which fell sequentially by another 1,400 or 1% to below 132,000. The total staff count is down 25,000 or 16% from our 2022 baseline. Our underlying cost income ratio dropped by 2 points sequentially to 78.5% and has improved by over 10 points compared to the same quarter last year. This performance highlights the substantial progress to date and outlines the path forward to reach our target ratio of under 70% by the end of 2026.

As in prior years, we expect in 4Q a modest sequential uptick in our operating expenses for select nonpersonnel items, including the U.K. bank levy and regional marketing spend.

Moving on to Slide 8. In the third quarter, we achieved 750 million in additional annualized gross cost saves, putting us past the halfway mark towards our 13 billion goal. As expected, the pace of saves moderately slowed this quarter as we continued the intensive work necessary to effectively dismantle the infrastructure of a former G-SIB. In particular, we completed preparation of the client account and platform migrations in our Asian wealth franchise and continued readiness efforts relating to our Swiss booking center, by far our largest that are planned for next year. This phase of the integration requires fully staffed teams across regions to minimize client disruption and maintain operational efficiency. The comparatively smaller saves this quarter are a reflection of these concerted efforts, along with higher variable compensation, FX headwinds and more moderate cost progress in NCL after a year of very strong sequential achievements.

As we continue our client account and platform migration work across our divisions and regions in the months ahead, we estimate sequential cost saves to be similarly sized. We expect the pace to pick up again once this critical integration phase is complete, and we can then fully benefit from decommissioning software, hardware and data centers and by unlocking further staff capacity. By the end of this year, we plan to have delivered around 7.5 billion in annualized gross cost saves versus our 2022 baseline and cumulative integration-related expenses of around 9 billion.

Now to Slide 9, where I unpack our capital position. We ended the third quarter with a CET1 capital ratio of 14.3%, slightly above our guidance of around 14%. As Sergio highlighted, the sequential decrease this quarter results from our decision to accelerate the phaseout of the PPA-related transitional capital adjustment which led to a 65 basis point reduction in our CET1 capital ratio. Without this voluntary acceleration, the ratio at the end of the quarter would have been 14.9%. As many of you will remember from last year, the acquisition accounting standard required us to fair value all of Credit Suisse's assets and liabilities at closing. This purchase price allocation process also resulted in fair value discounts applied to select Credit Suisse positions, such as fixed rate Swiss mortgages and certain term note liabilities, which were driven solely by interest rate and own credit effects. Accordingly, these fair value adjustments totaling to negative 5 billion net of tax effects, were expected to fully reverse into income or pull to par over time. Given the temporary nature of these adjustments, we agreed with our regulator at closing to amortize the resulting capital reduction on a linear basis over a 4-year period. This shielded our capital from significant accounting-driven volatility at least during the first phase of the integration process. Our decision this quarter to accelerate the phaseout of the residual balance of 3.4 billion reflects the significant progress we've made to date across our integration agenda, including the successful merger of the two parent banks last quarter. This decision also underscores our confidence moving forward. Moreover, by accelerating the phaseout of the transitional capital adjustment on the aforementioned positions, the remaining PPA discount, like all other pull-to-par revenues, will now fully accrete into our capital in future periods, reversing the impact seen in this quarter's results. Specifically, we expect to recognize total pull-to-par revenues of 6.4 billion over the next several years, benefiting our net profit, equity and CET1 capital. Within this, 80% is set to accrete back by the end of 2028, of which 3.5 billion by the end of 2026.

Notably, the requirement to fair value the position subject to the transitional capital adjustment had no bearing on the Credit Suisse parent bank or its stand-alone capital position. Hence, it's important to emphasize that our decision this quarter is equally neutral to the regulatory capital position of UBS AG now that the two parent banks have merged. We expect UBS AG's standalone fully applied CET1 capital ratio to be a strong 13.3% when we publish our report next week.

A brief update on Basel III finalization as we continue to assess the effects of the Swiss implementation on January 1. While we'll present the final details with our 4Q results in February, our latest estimate is that the RWA impact will be a low single-digit percentage of total group RWA. This is revised down from our prior guidance of around 5%, and is now expected to reduce our CET1 capital ratio by around 30 basis points upon implementation next year.

Now moving on to Slide 10. While our strong capital position is a key pillar of our strategy, starting this quarter, I offer a more comprehensive picture of our balance sheet and the structural drivers that contribute to making it a balance sheet for all seasons. As of the end of the third quarter, our balance sheet consisted of 1.6 trillion in total assets with around 40% in loan balances. While we continue to optimize the risk profile of exposures inherited with the acquisition of Credit Suisse, our lending book continues to reflect high credit quality and disciplined risk management. More than 80% of our loan portfolio consists of mortgages with an average LTV of around 50% and fully collateralized Lombard loans. This quarter, our credit impaired exposure as a percentage of our loan book was just 73 basis points, and our cost of risk was only 8 basis points. Assets held at fair value were 494 billion or around 30% of the total balance sheet. Notably, Level 3 assets were 16 billion and accounted for less than 1% of our total assets.

Turning to the liability side. Our operations this quarter were funded with 776 billion of deposits and almost 370 billion of well-diversified wholesale funding spread across currencies and tenors. Our loan-to-deposit ratio at quarter end was 79%. Throughout the year, we have diligently executed on our funding plan, already having completed our issuances for 2024 and prefunded some of our 2025 AT1 build.

Finally, tangible equity in the quarter increased by 3.6 billion to 80 billion, mainly driven by quarterly net profits and other comprehensive income of 2.5 billion. This was partly offset by a net reduction of 0.5 billion of treasury shares repurchased as part of our share buyback program. Our tangible book value was \$25.10 per share, reflecting a sequential increase of 5%. Overall, we continue to operate with a highly fortified and resilient balance sheet with total loss absorbing capacity of 195 billion, a net stable funding ratio of 127% and an LCR of 199%.



Moving to our business divisions, starting with Global Wealth Management on Slide 11. GWM's pretax profit was 1.3 billion, an increase of 30%, with strong positive jaws as revenue growth outpaced expenses by 4 percentage points. Our performance is showcasing the enduring competitive strengths of our wealth franchise. Enhanced by the Credit Suisse acquisition, our global scale, diversified model and cross-divisional capabilities, uniquely position us to capture wallet and seize growth opportunities. The industry trends we see accelerating include legacy and longevity-based planning needs, geographic wealth migration, and active management among the world's wealthiest investors to diversify portfolios and manage risks. These secular growth dynamics play right to our strengths. This quarter, within an active market environment characterized by higher volatility and continuing concerns around geopolitical developments, our clients benefited from our CIO's call to remain invested and to position their portfolios to take advantage of the current market backdrop. This further strengthened our clients' trust in our advice and capabilities and contributed to strong revenue growth in every region. All regions delivered double-digit PBT growth. Notably, APAC delivered impressive results, more than doubling last year's pretax profits on a revenue improvement of 13%. Also in the Americas, where invested assets surpassed the \$2 trillion mark, our performance showed notable progress. PBT grew by 11% year-on-year and by over 30% sequentially, translating into a pretax margin of 12%.

In the quarter, we delivered 25 billion in net new assets with positive flows across all regions. With net new assets of nearly 80 billion year-to-date, we remain on track to deliver on our 100 billion NNA ambition for 2024. Once again, we attracted strong net new assets while continuing to absorb integration-related headwinds, including the anticipated roll off of a portion of the fixed-term deposits associated with last year's win-back campaign, our ongoing work to optimize balance sheet usage and enhance revenue margins, and the residual tail of client advisers leaving the Credit Suisse platform.

Of the 60 billion in deposit volumes maturing in the quarter, we retained 85% on our platform, including converting 20% into more profitable mandates, structured products and other liquidity solutions. Managing this roll-off will remain a short-term priority for us as we expect elevated maturing deposit volumes over the next 2 quarters. Additionally, by remaining focused on improving the efficiency of our financial resources and increasing profitability on sub hurdle relationships, our balance sheet optimization efforts have supported incremental progress in our revenue over RWA margin, bringing it to over 23%, a 3 percentage point increase from a year ago when we started this work. Net new fee generating assets were 15 billion, reflecting strong discretionary mandate sales in all regions with disciplined pricing supporting stable margins sequentially.

Now on to GWM's financials. Total revenues increased by 7% with higher recurring net fee income and double-digit growth in transactional revenues more than offsetting NII headwinds. As I've highlighted in the past, a lower interest rate environment is expected to spur client demand for more advisory solutions, including structured products and alternative investments as clients seek to rebalance their cash exposures in search for yield. We also expect clients to reengage in lending activities helping to offset some of the NII headwinds. Recurring net fee income increased by 9% to 3.2 billion as our invested assets grew to 4.3 trillion, up 16% year-on-year and 5% sequentially, driven by market growth, FX and net new asset inflows. Mandate penetration increased to 38%, up 2 points from the same quarter a year ago, reflecting the value our clients see in our advice and solutions supporting their investment objectives. Transaction-based revenues were 1.1 billion, up 19% with strong momentum across all regions supported by the initial reduction in U.S. policy rates. Combined with the announcement of economic stimulus in China, this made for a constructive trading environment for our clients. In addition, the successful collaboration between GWM and the IB and our investments in AI-led sales support capabilities allowed us to capture transactional volumes across our expanding product shelf. We saw impressive growth in structured and cash products and in alternatives. This continues to be especially notable in APAC and the Americas, where transactional revenues were up 25% and 23% year-on-year, respectively, and both up sequentially versus a strong 2Q. We see this momentum continuing into the fourth quarter, while noting transactional activity typically decreases as we approach year-end.

Net interest income of 1.6 billion was broadly flat sequentially as reinvestment income from longer duration in our replication portfolios, offset expected headwinds from mix shifts. In the fourth quarter, with 50 basis points of further U.S. dollar rate cuts priced in, we expect a sequential mid-single-digit percentage drop in NII. This is expected to be driven mainly by headwinds on deposit revenues from lower rates, while our deposit balances, as mentioned, reflect conversion of fixed-term deposits in part into nondeposit solutions. Also, as mentioned last quarter, towards the end of the year, we plan to adjust the sweep deposit rates in our U.S. advisory accounts. The effect of this change on our NII is expected to be minimal in the fourth quarter. Moreover, lower U.S. dollar rate assumptions also reduced the modeled impact of sweep deposit rate changes on net interest income in 2025. And likewise, would be expected to improve last quarter's guidance of negative 50 million PBT annually.

Across GWM, as mentioned last quarter, we continue to initially expect net interest income to trough around the middle of next year based on current implied forwards. With our 4Q results and after completing our planning process, we intend to offer more developed insight into our 2025 expectations for GWM NII. Operating expenses increased by 3% compared to last year and 1%, sequentially. Excluding compensation related and currency translation effects, underlying operating expenses dropped by 4% compared to the second quarter. As highlighted previously, the ongoing client account and platform migration work is expected to be a significant driver of cost reductions in GWM by the middle of 2025 and into 2026.

Turning to Personal & Corporate Banking on Slide 12. We P&C delivered third quarter pretax profit of CHF 659 million, down 7%. Revenues decreased by a similar level, mainly as NII dropped by 11% as the prior year quarter featured substantially higher Swiss franc interest rates. Recurring net fee income increased by 5% on higher custody assets, while transaction-based revenues were down 5%, mainly from lower corporate activity, including in trade finance, partly offset by higher card fees. NII decreased by 2% sequentially, mainly driven by the effect of the SNB's second 25 basis point interest rate cut in June and partly offset by the benefits of our balance sheet optimization efforts which remain key to building back returns to preacquisition levels. This work which continues to contribute to improved revenues on capital deployed and fixing the funding gap inherited from Credit Suisse, came at the expense of net new lending outflows of CHF 5.6 billion this quarter. I would highlight that P&C's contribution to our commitment in Switzerland to maintain a loan book of CHF 350 billion was evidenced by around 25 billion in loans granted or renewed during the quarter.

In the fourth quarter, we expect NII to tick down sequentially by a low single-digit percentage, both in Swiss francs and U.S. dollars as the effects of the SNB's third 25 basis point rate cut in September are expected to more than offset improved lending revenues from our repricing efforts and lower funding costs. Considering competitive dynamics in Switzerland as well as the measured pace of accommodation in the Swiss Central Bank's monetary policy, our objective is to protect client deposit balances. Hence, our guidance for the fourth quarter reflects only a slight increase in deposit beta.

As mentioned last quarter, with Swiss franc interest rate stabilizing by mid next year based on current implied forwards, we continue to expect net interest income in P&C to trough shortly thereafter. We will offer additional insights into our 2025 expectations for P&C NII next quarter. Credit loss expense was 71 million, driven by several positions in our corporate loan book, mainly on the Credit Suisse platform. For the foreseeable future, we expect CLE to remain at broadly similar levels given the persistent relative strength of the Swiss franc and some economic softness in the main Swiss export markets, contributing to an already muted domestic economic outlook. Operating expenses in P&C were broadly flat year-on-year and down 1% quarter-on-quarter.

On Slide 13, pretax profit in Asset Management increased by 46% to 237 million, with revenues up 13%. Our asset management franchise is making visible progress in advancing its strategy of offering differentiated and tailored client solutions at scale. Complementing this is a high level of focus on streamlining the operational backbone of the division as well as exiting nonstrategic businesses. Results in the quarter include gains of 72 million from disposals, largely related to the residual portion of the sale of our Brazilian real estate fund management business. Excluding these gains, Asset Management's revenues were up by 3% year-on-year.

Net management fees were broadly flat as higher average invested assets and the effect of a revaluation of a real estate fund offset ongoing margin compression from clients rotating into lower-margin products. Performance fees were 46 million compared to 18 million in the prior year quarter, driven by higher revenues in our hedge fund businesses and fixed income. Net new money in the quarter was positive 2 billion, with strong inflows in money markets and positive contribution from our China JVs more than offsetting outflows in equities. Operating expenses were 4% higher as cost reductions from lower headcount were more than offset by higher personnel and litigation expenses.

On to our Investment Bank's performance on Slide 14. The IB continued to build revenue momentum leveraging the investments in teams and capabilities acquired with Credit Suisse and delivered another strong set of results with pretax profit of 377 million in the quarter. Revenues increased by 29% to 2.5 billion, with global markets posting its best third quarter on record and supported by solid performance in Global Banking. Banking revenues increased by 21% to 555 million as we leverage the increased breadth of our franchise and solidified growth achieved over the last several quarters. Our investments in talent and integrated coverage teams are paying off as we have gained meaningful market share in a number of key sectors. Regionally, APAC delivered its best third quarter on record in M&A, more than doubling total revenues from the prior year quarter, while banking revenues in the U.S. were up by around 20%.

In advisory, we delivered top line growth of 13% and further market share gains in M&A. Capital Markets revenues rose by 28% with increases across all product groups. Looking ahead, we remain encouraged by the strength of our pipeline, which should support our performance into 2025. We also maintain a top 10 ranking across the street and announced M&A volume.

Revenues in markets increased by 31% to 1.9 billion, driven by client activity and the strength of our expanded franchise. We saw increases across all regions and notably in the Americas, where revenues were up by around 60%. Equities revenues were up by 33% supported by higher constructive volatility. Our equity derivatives and cash equities businesses each delivered their best third quarter on record. FRC was up by 26%, with double-digit growth in FX and rates as we benefited from increased client activity, albeit against a softer comparative quarter a year ago. Operating expenses rose by 2% and were broadly flat, excluding currency effects.

Moving to Slide 15. Noncore and legacy pretax loss in the quarter was 333 million, with 262 million in revenues, primarily from exit gains and securitized products, partly offset by net losses in macro. Excluding litigation, operating expenses were down by over 40% year-on-year and up 1% sequentially. In the fourth quarter, we expect NCL to generate a pretax loss, broadly in line with the guidance we provided with our 2Q '24 earnings.

Now on to Slide 16. In the quarter, NCL reduced RWA and LRD by 5 billion and 11 billion, respectively. Since the second quarter last year, NCL has freed up almost 6 billion of capital by reducing its RWA by around half and its LRD by 2/3. It also have its cost base in that time. This progress to date puts us nearly a year ahead of our derisking schedule, including closing over 50% of the 14,000 books we started with. By the end of 2026, we aim to have less than 5% remaining. As the chart illustrates, solely by letting the portfolio naturally run off, we would already broadly meet our current ambition to reduce NCL to 5% of group RWA by 2026. This impressive result is testament to the skillful work delivered by the NCL team over the past 5 quarters. After completing our planning process, we'll provide an update to our NCL ambitions through 2026 with our fourth quarter results in February.

Recapping the quarter. We showcased the strength and long-term strategic advantages of our franchise by building on positive client momentum and delivering strong underlying profitability. We continued to make impressive progress in integrating Credit Suisse as we've successfully embarked on the next critical phase of our integration journey. With a strong capital and liquidity position and a balance sheet for all seasons, we remain well positioned to continue delivering for our clients and generating attractive shareholder returns while investing for our future. With that, let's open for questions.

## Question-and-Answer Session

### Operator

[Operator Instructions]The first question is from Kian Abouhossein from JPMorgan.

### Kian Abouhossein

The first question is on buyback in 2025. The second quarter stage, you were not commenting yet on buyback. Clearly, that changed at a recent conference and you're reconfirming this Sergio today as well. I just wanted to understand what the thinking is in terms of changing the buyback view in 2025? And how that fits into the regulatory regime changes that might come in the future. And in that context, if you could just also indicate if you will make any comments with the full year results as you will give us a buyback for 2025, how that fits this regulatory changes especially referring to the parent bank capital issue? And then the second question is on U.S. Wealth Management. Are you seeing a peak in yield seeking from depositors at this point and the hearing from U.S. peers that there is some stabilization sweep accounts. So I'm just trying to understand how lower rates will impact sweep, but also potentially impact loan growth as I can see, it's flattish in the quarter.

### Sergio Ermotti

Okay. Thanks, Kian. Well, look, if you go back into our remarks, my remarks in the past, I always clearly stated that starting a buyback program in 2024 would be at the start of a journey that would not be a stop and go kind of strategy. So I always -- and we always flag the fact that in 2025, we will have a share buyback. Now we are reiterating that guidance by saying that we do expect in the early part of 2025 as we present Q4 results to tell like we did this year, the amount of ambitions or the size of the ambitions we have for 2025. So in that sense, I think that -- I just -- we are just reiterating our commitments, also in respect of our ambitions for 2026 is that, of course, they are subject to requirements -- potential new requirements in Switzerland, and then we will assess. But our ambition is to have similar returns we had before the acquisitions by 2026.

Now for 2025, early 2025, your question, are we going to have more clarity? I don't know. We are not really in control of the timing. I think I suspect that we won't be able to give a lot of guidance on that – in that sense because we are still going through technical discussions. The consultation process probably is going to start late this year or even in the early part of next year, and it's going to take a few months. So it's very unlikely that in February, we will be able to give much more clarity on this topic. And so this is very unlikely then to affect 2025 capital returns ambitions. And that also implies that there is no change in terms of the parent bank, as you saw our parent bank – our overall capital position, it's very strong. And also when you look at our parent bank capital at 13.3% is very solid, is already on a fully applied basis, and with a methodology on how we look at valuation of assets and subsidiaries that is quite conservative, definitely compared to what we saw in the past.

### **Todd Tuckner**

Kian, regarding your second question, in terms of lower rates and impact on our U.S. wealth business. So first on the loan side, absolutely, I would expect across the division that lower rates will, I made this comment earlier in my remarks, should spur additional lending opportunities across the division, including in the U.S. On the deposit side, in particular, on sweeps. So first, I'd say a couple of things that we are seeing sweep deposits continue to taper. But in the quarter, we did have smaller outflows, so still about 1 billion of outflows. I'd say that some of the market dynamics that I see in this regard. One is that we're not yet pricing sweeps higher versus maybe some of the peer set doing. Secondly, we have a higher percentage of assets with ultra-high net worth. And for sure, that asset band tends to have a much lower percentage of AUM in sweeps. So that's going to be a market dynamic for us that we'll always weigh on that sensitivity just given that with a more high net worth client base where there's more sensitivity in terms of deposit pricing, naturally, then there'll be lower balances and sweeps. That said, I expect as rates come down, that we will continue to see sweeps balance taper, if not starting to grow.

### **Operator**

The next question is from Chris Hallam from Goldman Sachs.

### **Chris Hallam**

Yes. Just two questions from me. So 2025 profitability. You've guided for high single-digit return on core Tier 1, consensus is at 9. You're already at 9.2 in the 9-month stage this year. So how should we be thinking about the outlook for returns and earnings growth in '25 versus '24? And also any specific items to be aware of in the fourth quarter that could bring the '24 return on quarter 1 down meaningfully from what we've seen so far this year? And then second, and again, it's a bit of a follow-up on U.S. wealth. So 12% pretax margin in the quarter. Are there any one-offs in that number? And you've highlighted before you desire to bring a broader suite of products and capabilities to clients to drive that margin up towards the mid-teens target. What are the key signposts we should look out for, for you to sort of be delivering on that strategy? And given the comments yesterday from column on M&A, how does M&A fit into that strategy as well?

### **Sergio Ermotti**

Chris, so maybe just address your second question initially. Just in terms of the pretax profit in the Americas region. No, no one-offs. Just I would comment that, first of all, strongest revenue quarter ever. So they're certainly seeing that as a strength. We continue to see revenues growing nicely, up 3% sequentially in the region and 9% year-on-year. And so no one-offs. You see as well, I highlighted in my comments, the transaction revenues continue to be a real plus for us as we borrow the page from our strategy outside the U.S. in terms of working hand-in-hand with the IB in working with clients and bringing them our product shelf in transactions.

So really generating good transactional growth in that respect. Look, we're going to -- we know what we need to do, and we're going to stay focused on continuing to chip away at our goals. It's not going to happen overnight, and we'll continue to come back and talk about, in fact, in the fourth quarter, will give more of a perspective on how we see things and the signposts you can look to. In terms of 2025 and -- I'd say, first off, if we look out into 4Q, you asked, I mean other than the seasonality that we highlighted in the fourth quarter a bit on the top line that you would normally see despite the momentum we saw coming into 4Q, also a little bit on the expense side, as I highlighted in my comments a bit of the somewhat seasonal uptick and some one-offs like the U.K. bank levy. But away from that, no, I mean, nothing that we're seeing and nothing on the CET1 capital ratio that I would highlight. As we look out, I don't think we want -- we don't think it's appropriate to draw a straight line or extrapolate from the strong return on CET1 we generated this year. I think we just have to keep doing the things that we said we're going to do.



We know we have costs that have to continue to come out. At this point, that's going to be the biggest driver of getting us to a cost-to-income ratio below 70% and returns to around 15% by the end of 2026. We know that's the ambition for us, and we're going to work over the next 2 years to get there. But at this point, I wouldn't extrapolate necessarily from our '24 performance to draw a line into '25.

## **Operator**

Your next question is from Giulia Miotto from Morgan Stanley.

## **Giulia Miotto**

So two questions from me. Todd, you mentioned some balance sheet optimization efforts that have lifted revenues were out of place by 3 percentage points. I was wondering if you call the [indiscernible] on these measures and how much is left to come, I think, in Q4, you highlighted some NII impact, and I was wondering how much of that has already come through? And then aside from the quarter and going back to the U.S. wealth business. In my understanding, -- and once you get to 15% PBT and on once we're with CS integration, you could consider some inorganic growth opportunity to further improve margins. But even this at all with the too big to say proposal the way it is written at the moment, which sort of penalizes growth in foreign subsidiaries and how do you scrap the two?

## **Todd Tuckner**

Giulia, Yes, so on the balance sheet optimization, yes, thanks for recalling that point in my remarks is that is something we're quite proud of that work which is driving up the efficiency on the capital deployed in the businesses that we inherited. And so this has been a big piece of work that's been driven by the business really across the entire business. And so the impact is appreciable as you saw. So just some insight into it. And I've talked about this a bit before. But effectively, when we look at the capital deployed typically around lending relationships that have been largely inherited, albeit we can look at still the ones that are more heritage UBS as well. To the extent that there's sub-hurdle, we've been taking the steps to drive additional revenues through repricing efforts, but importantly, to expand the product shelf and offering available to those clients who might be monoline clients. And so that's been a big effort. And you could see that in the uptick in the revenue over RWA as we expand effectively the offering to those clients who may have just been clients who were -- had a loan with us with Credit Suisse and now have a much broader array. And so it's a win-win as we bring a lot of value. I mentioned the impact on net new assets because naturally, as you attempt to optimize the balance sheet, while we've been successful, there will be times when you try to reprice that there'll be clients and in particular, securities leaving the platform. And so that's where the NAA headwind is that I talked about that we're capturing in our otherwise impressive net new asset performance in the quarter.

### **Sergio Ermotti**

Yes, Julia. On the second question, I think that – first of all, I think it would be premature to draw a conclusion around what the new regulation will be. Having said that, you have to balance that one aspect that has been clearly outlined by the Swiss Federal Council proposal, is that their intention, their desire to keep Switzerland and probably speaking also UBS as a competitive global player. So I can't really see how this is possible with a regime that would penalize expansion globally. So in that sense, I think it's – as we mentioned before, we do believe that whatever the new regime will be, it will be something that fits into this strategic direction outlined by the Federal Council and a desire to correct some aspect of the current regulation, which, broadly speaking, is a very strong regulation, one of the most demanding one when fully applied and consistently applied. That was not the case in the Credit Suisse situation. UBS is a completely different situation. We believe we have a very strong capital position, a balance sheet for all seasons. And we are able to sustain both a global business model, but also staying very close to our own markets and sustain the economy. So when we have all the facts, we will draw strategic conclusions on what to do. It's now premature to do that.

### **Operator**

The next question is from Stefan Stalmann from Autonomous Research.

**Stefan Stalmann**

The first one I wanted to ask is, I noticed that your sensitivity to a downward shift of the yield curve has actually come down a lot. In the second quarter, you guided for minus 1.5 billion, and now it's only 300 million. And that is despite the fact that the rate environment hasn't changed dramatically during the third quarter. Could you maybe explain what has changed then? And another question not directly related to the results, but there were stories that you might be interested in some kind of joint venture in India, potentially with a player called 361. You may not be able to comment on this specifically, but hypothetically, would this be indicative of any strategic desire to shift more onshore and more into potentially lower wealth brackets if you contemplate such a move?

**Todd Tuckner**

Stefan, on the first, yes, good spot. So that asymmetry is a function of now in the lower interest rate environment in Swiss franc terms. It's just the loan flooring dynamics that come into play from negative interest rates. So you see that the down 100 basis points scenario will have a much more limited impact or an asymmetrical impact to the up 100 basis point impact, in particular in Suisse.

**Sergio Ermotti**

Yes. And on the second question, you're right, we are not going to comment or on any speculations or rumors but we do believe that Asia Pac is a growth business. We have now a stronger presence in India, thanks to the combination of the UBS and Credit Suisse capabilities. We always look at ways to enhance our businesses in each key locations where we operate. But I wouldn't draw a conclusion that we are thinking about major strategic moves in terms of segment focus at this stage.

**Operator**

The next question is from Jeremy Sigee from BNP Pariba.

**Jeremy Sigee**

Just a couple of follow-ups on Wealth Management, actually, and they are both things that you've touched on, but I just want to get in a bit more detail. The first one was on adviser numbers, which are coming down a little bit more sort of as expected in this quarter. But I just wondered where you are in that process and what the outlook is for how much more reduction in adviser numbers do you expect? And is there a point at which that returns to growth mode? Or does it stay in optimization mode for a continued period of time, so adviser numbers. And then the second question was just to talk a bit more about Asia and Wealth Management. You referred to the stimulus, you referred to the pickup in transaction activity. So I just wondered where you think we are in that process, and for example, whether you're seeing signs of releveraging and just how much improvement you see ahead of us in that Asia process?

### **Todd Tuckner**

Jeremy. Yes. So first, on Asia, we're really pleased with the performance in GWM APAC, and thanks for recognizing that as well. You see the sequential progress this -- having transaction-based income up in 3Q versus 2Q, really proud of that result, and then you see the year-on-year quite strong. In terms of where we are, I think this -- we have -- I would argue we have a long road ahead in the sense of good upside just given that the business is first coming together now on the same platform. I mean, we shouldn't underestimate the importance of that with the Hong Kong client account migration just having been completed this past weekend, and we're looking forward to Singapore and Japan in the fourth quarter. I mean these are things that are really going to just further bring the business together.

And I think from here, lower rates, let's see, but releveraging opportunities, as you mentioned, the business is very focused. I think the business is positioning itself to fire on all cylinders in APAC. And I am very, very bullish about that. So in terms of where we are in the process, I think, obviously, it's been a good backdrop in this last quarter, but I think there are really good things ahead. In terms of the adviser numbers, I would sort of look at that in two ways. First, on the non-U.S. or what we call the Swiss and international part of GWM. I would say, from an adviser perspective, it is still optimization is probably the word has come together. I think it's -- lion's share of that's been complete. I've talked about the Credit Suisse client advisers leaving for some period of time and that's been an old story, and it's just really the tail of it that we talk about maybe as a headwind a bit on net new assets.

But in terms of the adviser headcount, I just see the teams as they come together and as well once all the platform work is complete, I think then we get to a point of stability and from there, the business can make targeted investments in specific regions to grow for sure, but to already leverage at scale. I think in the U.S., we need to a bit take a wait and see and see what the leadership comes back with a bid and they – as they do their strategic reviews, and we'll talk. Sergio and I will come out and talk a bit in the fourth quarter about that. I think it has been a story of somewhat trying to get more productive with a smaller adviser workforce over a number of years. And we'll have to see if that's the direction of travel that the current leadership wants us to go.

## **Operator**

Next question is from Amit Goel from Mediobanca.

## **Amit Goel**

Yes. So two questions for me, also one on the U.S. wealth business. I found it really interesting, the commentary about potentially looking acquisitions. I guess what I'm just wondering is then from a strategy standpoint, if part of the issue in terms of operating margin is the scale and the cost base relative to the revenues, is it now then a case that it's cheaper to acquire than to simply just hire, because the U.S., as you say, the focus has been on productivity, reducing FA numbers. So I'm just trying to think, is that because these 400% recruitment deals are now just too expensive to make it worthwhile, but it's actually just cheaper to buy an organization. And then secondly, just coming back on the deposits and the roll-off of the fixed-term deposits within wealth. I'm just curious, were those kind of written 12 months ago and were those done at kind of quite high rates? So just curious if there's also potentially some of that effect into Q4 and start of next year?

## **Todd Tuckner**

Amit. Yes, so on the deposit question, yes, these were written basically, they have a year maturity. So you start to see -- we start in 2Q already ones that were written just in the wake of the acquisition all the way through, I would say, the end of the year of 2023, into the very beginning of this year. And they had -- they were competitive in terms of pricing for sure as part of stabilizing the franchise and engaging with clients. So for sure, and so now as they mature, the question, and that's what I've been highlighting in the last couple of quarters, the question becomes what we call landing or referred to them as landing those deposits in the sense of converting them into other parts of the platform as we've been doing successfully. Retaining is the key objective, and retaining them in a more profitable manner and we're doing that quite successfully. But it's a headwind on NNA that we've absorbed in these NNA metrics that I've been highlighting insofar as there is still some that are leaving the platform. In terms of the outlook, we still see elevated. I think 3Q is the peak, but we still see elevated maturing FTDs in the fourth quarter and into the front part of the first quarter before we could get this issue a bit in the rearview.

### **Sergio Ermotti**

Well, in respect -- again, I guess, on this potential inorganic things. I have to say that made it very clear that it's not a tomorrow morning kind of issue. So I think it's totally premature to speculate how -- if and how we would do any such a move. Our priority right now is to improve what we do in the U.S., bringing the margins to -- narrowing the margins to our peers and doing better what we have today. And then potentially by doing that and we're going to create also the optionality and to really choose what fits best is an organic growth or is it inorganic and what fits the best in our business model, which is asset-gathering centric. The scale issue in the U.S. is pretty much driven by the fact that we have a banking platform, a GC platform, the through the intermediate holding company that can accommodate different banking businesses, which we don't have. So again, I think that once we finish this chapter of restoring the profitability at the levels we want to be, and we fully extract the value of our investments in the investment bank and the collaboration with -- between the Investment Bank and Wealth Management and Asset Management, we will determine the next phase.

### **Operator**

Your next question is from Anke Reingen from RBC.

### **Anke Reingen**

Just two small on capital, please. The first one is on the core Tier 1 ratio. Being, I mean, ex the accelerated amortization stable quarter-on-quarter, and that's in spite of a really strong like profit and our own capital generation. I mean I realize there are a number of things going on, including FX. But is there something else we should keep in mind that only means the capital ratio is flat or are you investing more capital into organic growth? Because otherwise, I guess, given the strong earnings, the expectation will be that capital generation drives the ratio higher. And then secondly, just on the Basel IV impact. Just to confirm, would that be at the UBS AG would the impact be around 30 basis points as well?

### **Todd Tuckner**

So on the first -- on your first question, in terms of the capital accretion ex the acceleration of the transitional adjustment, think there are a few factors to consider. One is the FX sensi. I mean you mentioned that, but we disclosed that there is an FX sensi of 18 basis points on our capital with respect to a 10% depreciation in the dollar versus our major currencies. If you look at currencies in in 3Q, in particular, the Swiss-dollar was down around 6% from the beginning of the quarter until the end and the pound versus the dollar, similar dynamic, so that accounts for close to 0.1% on the capital ratio that the currency effects this quarter, as you mentioned.

So that's one piece. Another piece is just a temporary difference deferred tax assets, given the reduction in the CET1 level of capital from the acceleration, we are at the 10% threshold. So we lose a bit, goes over the 10% and therefore, lose the benefit of the temp difference DTA, which has a modest impact. And then third, just slightly increasing the accrual for future award hedging, future share award hedges that's in our capital. So that also has an impact. So those all contribute to probably why you would have expected maybe on that net profit all the things equal to be potentially slightly above the 15 handle, sorry. On the Basel III final impact on the parent bank, it won't be the entire 30 basis points affecting the parent bank, but it should be most of it. There might be some that falls outside. But again, if you're talking also the parent bank stand-alone, it won't be all of it because still a fair bit of activity that's subject to the Basel III changes are happening in subsidiaries not in the parent bank itself. So I would expect that there'll be some, but not all of the 30 basis point impact in the parent bank itself.

### **Operator**

The next question is from Andrew Coombs from Citi.

### **Andrew Coombs**

A couple both related to revenues. Firstly, coming back to U.S. sweep deposits and repricing. Would be -- thank you first for the additional color around the slightly less than 50 million PBT impact. But could I ask if you could possibly break out the revenue growth impact versus the cost save offset on that? And also do the class action suit in the probe, having implications on pricing dynamics in your mind for the industry as well as for you going forward? And then the second question actually on loans. If you adjust out for FX, you've seen a 10 billion decline Q-on-Q. You reiterated this point about committing to CHF 350 billion loan book across P&C and GWM Switzerland. You're now running a bit below that. I think you're close to 340. So just to be clear, is the 350 a commitment throughout this period? Or is it a case that you expect to trend down and then recover back to that 350?

### **Todd Tuckner**

Andrew, so on the second one, look, it's a commitment to maintain around that level. So we've been doing the balance sheet work that I've been highlighting in my remarks both in P&C and GWM. And in P&C, we actually saw net new loan outflows, as I highlighted, of about CHF 6 billion this quarter. This is a commitment that we've made to the market, and you can look at that as an ambition that we'll continue to focus on and commit to, but of course, we're also running the business, so there might be volatility quarter-on-quarter on that. In terms of -- in terms of the sweep, you were looking for some more information. I had mentioned in the past that, look, the gross would be a low single-digit percentage of the divisional net interest income. So with -- that was even based on where rates were when we gave the guidance last quarter. So as rates now are coming in, as mentioned, that will have a lower impact on the gross as well as a lower impact on the net, that should give you, though, a general sense of the impact.

### **Operator**

The next question is from Benjamin Goy from Deutsche Bank.

### **Benjamin Goy**

Two questions, please, also on my side. First, on Investment Bank, outperformance across equities and fixed income would just be interested in a little more color what you're attributing that to? Is it lower base? Is Credit Suisse now fully add revenue run rate? Or is business mix or anything else you would flag? And then secondly, GWM and also P&C net interest income outperformed your own guidance. Just wondering why that was in your view and why the Q4 guidance could be cause or not. So what is -- so what could be worse this time?

### **Todd Tuckner**



Benjamin. So on the second, in terms of our guidance last quarter, we extended duration of our equity, and we saw a higher reinvestment income, as I highlighted in my comments, and that had a positive effect on GWM's NII. And therefore, we came in flattish versus sort of a low to mid guidance. So that would explain that. On the P&C side, I think we saw some positive effects of the balance sheet optimization work that had a strong impact in the third quarter as an offset to the rate impact, as I highlighted. So those were – there were some offsets that – which we're always working, obviously, to drive in this lower rate environment. There were some offsets that had us outperform in the quarter. So I mean, the guidance I gave for 4Q is how we see it at the moment, largely driven by the impact of rates, but of course, we're going to always look to drive offsets where we can. In terms of the IB, I'd say the – on the market side, I mean, it's effectively the Credit Suisse team has been embedded for some time. The positions have been all largely transitioned over. So it's all full steam ahead in terms of that. Credit Suisse supporting markets on the research side. But yes, it's – the performance, I would say, is not about it being a lower base. I think in markets, it's been about a team that's – a strong team that's gotten stronger, and you're seeing a supportive markets how the team is performing.

## **Operator**

The next question is from Piers Brown from HSBC.

## **Piers Brown**

Got two questions. I wanted to follow up on the previous Investment Bank question. But in terms of the Global Banking business, I mean you still obviously showing good year-over-year momentum but much weaker quarter-on-quarter as you guided into 3Q. But could you just talk about how you're thinking about execution of the pipeline given market conditions in the fourth quarter and the prospect of further volatility? And then the second question is on NCL. So again, as you've guided, the slowing of the pace of RWA or about just under 5 billion this quarter from 8 billion last quarter and 16 million in the third -- in the first quarter.

## **Todd Tuckner**

So on the second, look, Serge and I have said consistently that in NCL, we're going to prioritize cost takeout and the way we think about derisking the book. That still is the team's focus. It's had a great run and continue to do so in 3Q with derisking another 5 billion of RWA. So -- I mean I wouldn't necessarily draw conclusions other than to say that the pace that we're running at is a pace that would be very hard to sustain given that we had -- we articulated ambitions for the end of 2026 that they've been making quick work at, but -- and we'll come back and reguide, as I mentioned in my comments in 4Q about how we see the next 2 years. But certainly, you can't draw a straight line from the performance that they've had life to date. In terms of the banking performance in the quarter, look, I still think it was a good performance. It outperformed the fee pool. We had a very strong first half of the year. 2Q was exceptionally strong. We had a bit of bring forward as well of some deals that we were able to get done in 2Q, and probably had the inverse dynamic happening in 3Q, where we had some deals pushed into the fourth quarter and those deals on the margin can make a difference on the performance in the comparative. But we remain very bullish on the pipeline. Naturally, of course, the uncertainties that we highlighted in our comments about 4Q are clearly potential issues to navigate, i.e., the U.S. elections, other geopolitical concerns, intentions that may impact on banking overall. But I think we're going to continue to gain market share, and we're bullish on banking's ability to execute on its pipeline.

### **Sergio Ermotti**

Todd, I would only maybe add to that from a comparison standpoint of view, it's worthwhile to know that strategically, we are underweight in that capital markets. So in a sense, when you look at peer performance, you have to look at the third quarter was a pretty strong quarter for the capital markets. So I think that's -- we are very happy with the developments that we've seen in the banking and the ability to win mandates. Now of course, we need to see if we can execute it and the market will -- if the market will be there, but very confident that it's a good momentum.

So that was the last question. So thanks for dialing in and for your questions. And we'll catch up in February for the Q4 results and we're going to give you also an update on our 2025 and 2026 journey. Thank you.

### **Operator**

Ladies and gentlemen, the webcast and Q&A session for analysts and investors is over. You may disconnect your lines.

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