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UBS Group AG (UBS) Q1 2024 Earnings Call Transcript

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UBS Group AG (NYSE:UBS) Q1 2024 Results Conference Call May 7, 2024 3:00 AM ET

Company Participants

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

Conference Call Participants

Alastair Ryan - Bank of America
Chris Hallam - Goldman Sachs
Kian Abouhossein - JPMorgan
Giulia Miotto - Morgan Stanley
Jeremy Sigee - BNP Paribas Exane
Andy Coombs - Citigroup
Anke Reingen - RBC
Ben Goy - Deutsche Bank
Piers Brown - HSBC
Tom Hallett - KBW

Operator

Ladies and gentlemen, good morning. Welcome to the UBS' First Quarter 2024 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'd 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 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. A little over a year ago, we were asked to play a critical role in stabilizing the Swiss and Global Financial Systems through the acquisition of Credit Suisse and we are delivering on our commitments. This quarter marks the return to reported net profit and capital accretion, a testament to the strength of our client franchises and significant progress on our integration plans.

Reported net profit was $1.8 billion with underlying PBT of $2.6 billion and an underlying return on CET1 capital of 9.6%. Our commitment to stay close to clients supported healthy revenue growth in our core businesses and flows across our asset gathering franchises. Meanwhile, we are executing on our restructuring plans at pace and actively winding down Noncore and Legacy assets. We also achieved another $1 billion annualized run rate gross cost savings during the quarter as we progress towards our $13 billion target.

As for the next significant integration milestones, we remain on track with our plans to simplify our legal entity structure. The merger of our parent banks is expected by the end of May and the transition to a single U.S. intermediate holding company is expected to occur shortly thereafter. The merger of our Swiss bank entities is set to take place before the end of the third quarter. All of this is subject to final regulatory approvals.

These critical milestones will facilitate the migration of clients onto UBS platforms beginning later this year and unlock the next phase of the cost, capital, funding and tax benefits from the second half of 2024 and more so by the end of 2025 and into 2026. Lastly, improvements in our CET1 capital ratio was supported by our optimization of risk-weighted assets. As a consequence, we remain well-positioned to deliver on our capital return targets for this year.

Our underlying financial performance was driven by significant positive operating leverage at the group level with 15% revenue growth alongside a 5% reduction in operating expenses compared to the fourth quarter. Compared to a year ago, we reduced operating expenses by around 12%. We had excellent performance in Global Wealth Management as underlying PBT doubled sequentially to $1.3 billion. Personal & Corporate Banking delivered underlying profit growth quarter-on-quarter, driven by higher revenues and lower credit loss expenses.

Meanwhile, Asset Management posted solid results, thanks to cost discipline. As a result of the restructuring efforts that we have undertaken over the last nine months, I'm particularly pleased that Credit Suisse's Wealth Management, Swiss Bank and Asset Management franchises are now all profitable and contributed to our financial performance. Investment Bank delivered a double-digit underlying return on attributed equity supported by lower operating expenses compared to Q4 and another strong quarter in Global Banking revenues.

Lastly, we had a positive revenue contribution from non-core legacy as we accelerated position exits while further reducing costs. While we continue to deliver on the integration, helping our clients manage, grow and protect their assets remains our top priority. We maintained our momentum with clients in GWM. Invested assets have now surpassed $4 trillion as we generated $27 billion of net new assets. Socio-geopolitical volatility and macroeconomic uncertainty continue to weigh on client sentiment, we observed an improvement in risk appetite and activity. We also saw an improvement in client activity within P&C, particularly among corporates.

In Asset Management, our clients continue to value our separately managed account and sustainability offerings. We have generated $21 billion in net new money during the quarter. In Global Banking, we outperformed the fee pools in all regions, but most notably in the U.S., where the integration of Credit Suisse teams is progressing well, and our pipeline continues to build.

Let's move to non-core and Legacy. As I said before, and you can see on this slide, we are making good progress in taking out costs and streamlining our operations as we round down the portfolio. We accelerated the wind-down of several complex and longer-dated positions this quarter, supporting a capital release of around $2 billion and a material improvement in our natural runoff profile. We are well positioned to achieve our target to reduce noncore legacy risk-weighted assets to around 5% of the group by the end of 2026, and we remain focused on accelerating positions exit in a manner that continues to optimize value.

Turning to capital. As you can see, the combination of our highly capital generative business and the restructuring and active management of financial resources has further reinforced our balance sheet for all seasons. This permits us to follow through on our capital return plans for 2024. During the quarter, we began accruing for a mid-teen percentage year-on-year increase in our dividend. And as previously communicated, we expect to resume share repurchases following the completion of the parent bank merger, targeting up to $1 billion.

Our ambition is to continue repurchases in 2025 and for our capital returns in 2026 to exceed pre-acquisition levels. Of course, all of this is now subject to our assessment of any proposed requirements related to Switzerland's ongoing review of its regulatory regime. In this respect, I'd like to address the recent proposals in Switzerland to strengthen the too-big-to-fail regime. It is clear both to us and several expert groups that too-low capital requirements were not why Credit Suisse needed rescuing. However, we agree with the Swiss Federal Council's view that capital and liquidity requirements on their own are not sufficient to ensure the resilience and stability of a systemically important bank.

In addition to adding a strong capital position, it is key to maintain a sustainable business model centered around risk-adjusted profitability and a robust risk management framework. All of these are core principles for UBS. For over 10 years, this approach has served our clients, employees, investors and the Swiss economy well. It is what allowed UBS to respond to the Swiss government's request in March 2023 to be part of the solutions to stabilize the financial system. While some modifications to the regulatory regime may be necessary and we have endorsed many, the discussion around capital should be based on facts that includes a full and transparent account of what led to the idiosyncratic failures of Credit Suisse.

The ultimate and crucial objective of the too-big-to-fail regime must be to credibly demonstrate that a systemically important bank could be safe in a crisis largely through its own financial resources. We believe UBS has and will continue to demonstrate its resolvability from both an operational and capital point of view. With around $200 billion in total loss-absorbing capacity, our shareholders and structurally subordinated bondholders bear the significant costs and risks to ensure taxpayers would not suffer in the highly unlikely scenario that are major systemic events affect UBS.

We appreciate that many of you would like a quantification of the potential impact of any new capital regime, but it's too soon to jump to conclusions. It would be inappropriate for us to speculate or respond to speculation on the potential impact. We were not involved in the consultation process, leading to the publication of the Federal Council report and we do not have clarity on any proposed changes and how they would be implemented. Nonetheless, one point on which we may offer some clarification is the topic of parent bank capital.

Our parent bank was already well capitalized in both absolute and relative terms and is in a position today to absorb the removal of substantial regulatory concessions granted to Credit Suisse. By fully aligning the treatment of capital at Credit Suisse to our more rigorous approach, UBS has to provide the additional capital required for the phasing of risk-weighted assets for Credit Suisse participations. UBS had already done this for its subsidiaries when the rules were introduced in 2017.

Further, UBS will not rely upon the regulatory filter historically applied to Credit Suisse. Overall, this requires additional capital in the amount of about $9 billion. When applied consistently and coherently, the Basel III rules that UBS and its global peers must follow are robust. They too are being significantly tightened. In addition, the phasing in of progressive capital add-ons will already lead to substantially higher capital requirements for UBS' parent bank, about another $10 billion.

So overall, we are adding almost $20 billion in additional capital, which, of course, was already reflected in our previously communicated capital and financial targets. In our view, all of this must be considered when new requirements are discussed, defined and calibrated. In this respect, we will be constructively contributing our views to the relevant authorities and various policymakers. As the third largest private employer, one of the country's largest taxpayer and as importantly, a significant provider of credit to households and businesses in Switzerland, we believe it is also our responsibility to share our perspectives with a wider public. This is an important discussion for the country, and I remain hopeful for a proportionate outcome.

In the meantime, in addition to executing on our integration plans, we will remain focused on what we are able to control, serving our clients, following through on our strategy, investing in our people and remaining a pillar of economic support in the communities where we live and work.

With that, I'll hand over to Todd.

Todd Tuckner

Thank you, Sergio, and good morning, everyone. Before I begin, I would offer a reminder that the first quarter financial report published today includes select interdivisional changes we signaled last year. We shifted the Swiss high net worth segment from P&C to GWM and pushed out residual centrally held costs and financial resources to our business divisions, ultimately increasing the equity we allocate to them. These divisional shifts support continued resource discipline and accountability. They also align with the interest of shareholders by reflecting group performance as a whole through the reporting lens of the respective individual businesses.

In my remarks today, I will refer to underlying numbers in U.S. dollars and compare them to our performance last quarter unless stated otherwise.

As illustrated on Slide 9, our financial performance this quarter reflects strength in our core businesses as well as excellent progress across our integration work streams, resulting in substantial reductions in operating expenses and risk-weighted assets. Profit before tax increased significantly to $2.6 billion from strong operating leverage quarter-on-quarter driven by higher revenues and lower costs, both of which I will cover in more detail shortly.

Net credit loss expenses declined by $30 million this quarter to $106 million. On a reported basis, the first quarter net profit was $1.8 billion, including a tax expense of $0.6 billion. The effective tax rate for the quarter was 26%, lower than previously guided, primarily due to the strong performance in non-core and Legacy that reduced the level of losses in select Credit Suisse legal entities. We expect the effective tax rate in the second quarter to return to more elevated levels from higher forecasted losses in these entities before the first of the planned mergers takes place later this month. We then expect the group's effective tax rate in the second half of 2024 to continue to normalize, ultimately falling to its structural level of 23% by 2026 driven by further legal entity optimization and cost elimination.

Total revenues, on Slide 10, increased by 15% to $12 billion with strong sequential gains in Global Wealth Management, the Investment Bank and non-core and Legacy. The latter included a gain from the closeout of the main aspects of the transaction relating to the former Credit Suisse securitized products business, which was announced earlier in the quarter. Partially offsetting our top-line performance was a decline of $446 million in group items, driven primarily from hedging P&L, reflecting higher interest rates and widening currency basis spreads in the quarter.

Total reported revenues reached $12.7 billion, which included $0.8 billion from purchase price allocation adjustments in our core businesses. Since the Credit Suisse acquisition, these adjustments totaled $3.1 billion, excluding the effects in NCL and mainly relate to loans that will pull to par if held to maturity. We continue to expect to report additional revenues of around $7.4 billion through the end of 2028 from these acquisition-related effects, of which $0.6 billion is expected in the second quarter.

Moving to Slide 11. Operating expenses for the group decreased by 5% quarter-on-quarter to $9.2 billion, with the largest reductions in Noncore and Legacy, Global Wealth Management and the Investment Bank. Personnel costs, excluding variable and financial adviser compensation, decreased by around $120 million or 3% quarter-on-quarter. Variable and FA compensation expenses were up 11% sequentially on the back of higher revenues. Overall, personnel expenses increased by 2%. There were almost 2,000 fewer total staff at the end of the first quarter when compared to the end of the fourth quarter of 2023 and over 19,000 fewer versus the end of 2022, down 12.5% over the past five quarters.

Non-personnel expenses were down $0.6 billion quarter-on-quarter, driven by lower real estate expenses, combined with the reduction in third-party spend. Additionally, the fourth quarter contained charges for the U.K. bank levy and the U.S. FDIC special assessment that were not present in our first quarter performance. Integration-related expenses in the first quarter were $1 billion, split roughly half-half between personnel and non-personnel costs resulting in reported operating expenses of $10.3 billion.

On Slide 12, we report on the progress against our cost ambitions as described during the investor update in February. Exiting the first quarter, we realized an additional $1 billion in gross cost saves when compared to the 2023 exit rate. Since the end of 2022, we have achieved $5 billion gross saves or nearly 40% of our 2026 exit rate ambition of $13 billion. As I highlighted in February, we expect our integration work to intensify over the next several pivotal quarters. This will require appropriate staff levels to ensure efficient, effective and well-controlled execution. Accordingly, the pace of gross cost saves is likely to decelerate from the run rate savings output achieved over the last five quarters, with another $1.5 billion in gross cost saves expected by the end of the year.

Following this intensive phase, we continue to expect the pace of gross saves to pick up again in 2025. Integration-related expenses linked to our cost-saving actions reached a total of $5.5 billion since the Credit Suisse acquisition, including the $1 billion incurred in the first quarter. As previously mentioned, we expect to incur around $13 billion of integration-related expenses by the end of 2026 or a ratio of about 1:1 between cost to achieve and gross saves. As these integration charges enable and unlock future cost reductions, we expect them to outpace gross saves through the rest of 2024, totaling $3.5 billion, of which we estimate $1.3 billion in the second quarter.

Of course, what matters is turning gross saves into clear progress in our underlying OpEx performance. Our 1Q '24 underlying operating expenses of $9.2 billion signaled a significant improvement against our 2022 benchmark, meaning a majority of the gross cost saves we realized to date have translated into net reductions in our underlying OpEx. Thus far, most of these life-to-date net saves benefit Noncore and Legacy. I highlighted in February that we expect around half of the group's planned gross cost saves and a considerable majority of net saves to be achieved from running down NCL's book as well as eliminating expenses associated with maintaining Credit Suisse's many legal entities and branches. We are seeing this dynamic reflected in our cost performance.

We also expect NCL to benefit further from the upcoming legal entity mergers and from continued position exits, working towards a 2026 OpEx exit rate of less than $1 billion. Finally, in our core businesses, we expect to realize a significant portion of integration cost synergies beginning in 2025 when client accounts and positions are moved to UBS platforms and applications and Credit Suisse infrastructure is shut down.

Moving to the quarterly performance of our business divisions and starting with Global Wealth Management on Slide 13. In the quarter, GWM's pretax profit doubled to $1.3 billion on stronger revenues and lower operating expenses. Notably, on a combined basis, PBT increased by around 20% year-over-year with the Credit Suisse platform returning firmly to profitability. Overall, we see very good client momentum across GWM with net new assets of $27 billion and strong contributions from the Americas, Switzerland and APAC. Net new fee-generating assets reached almost $18 billion from healthy net inflows to SMAs in the U.S. and discretionary mandates in EMEA and Switzerland.

The business achieved this full performance while focusing on financial resource efficiency and balance sheet management, seeking to reprice loans with sub-hurdle returns or to otherwise exit such positions. This ongoing work mitigates some of the headwinds from inherited Credit Suisse risk models and led to a decline in credit and counterparty risk RWAs of $4 billion in the quarter. We've also begun to see progress in GWM's revenue over RWA metric, particularly on the Credit Suisse platform.

GWM also attracted $8 billion in net new deposits in the quarter, while our pricing increasingly reflects the group's strong liquidity profile and tighter funding spreads. I would note that we estimate seasonal tax-related outflows in our U.S. business in the mid- to high single-digit billions as a headwind to divisional net new asset performance in the second quarter.

Now on to GWM's financials. Revenues increased by 10% sequentially with improvements across all lines, driven by higher client activity and increased average asset levels. Revenue performance related to client transactional activity was particularly strong across the business. NII increased by 4% sequentially to $1.6 billion as higher revenues from reinvestments as well as increased U.S. dollar deposit rates and volumes, offset the effects of tapering deposit mix shifts and client deleveraging. In the second quarter, we expect a low to mid-single-digit percentage decline in GWM NII due to moderately lower lending and deposit volumes and lower interest rates in Switzerland, partly offset by additional revenues, primarily from higher U.S. dollar rates, combined with our repricing efforts.

For the full year 2024, we expect NII in GWM to be roughly flat versus 4Q '23 annualized. Specifically, we see NII and margins holding broadly steady in 2H 24. And after the second quarter, broadly reverses out the sequential gains we realized this quarter. This outcome, which models 3 U.S. dollar rate cuts is helped by lower funding costs as well as our balance sheet initiatives. Recurring net fee income increased by 4% to $3 billion in the quarter from higher client balances and inflows in net new fee generating assets. This was partly offset by margin compression from more of the back book, reflecting greater penetration into lower margin mandates across higher wealth bands.

Transaction-based income increased by 1/3 sequentially to $1.2 billion, driven by higher trading volumes across all regions Combined transaction revenues were also 9% higher year-over-year. Our APAC franchise had a particularly impressive transaction revenue quarter, doubling from 4Q with strength demonstrated across all product classes despite the economic uncertainties weighing on sentiment for most of the first quarter. We also saw positive momentum in the Americas where the introduction of our international model of joint coverage of GWM clients with the IB led to transaction-based revenue gains of 11% quarter-on-quarter and a mid-teen increase year-on-year.

Expenses for the quarter were down 3% sequentially, mainly from decreases in salaries and non-personnel costs and with nonrecurring items in the fourth quarter falling away, outweighing increases this quarter in variable and financial adviser compensation.

Turning to Personal and Corporate Banking on Slide 14. With good momentum and the front office team is now more closely aligned to strengthen client engagement, P&C increased pretax profit by 11% sequentially to CHF774 million, its highest PBT since before the Credit Suisse acquisition. Revenues were up by 4%, with gains across each significant revenue line, further supported by a 47% decline in credit loss expense quarter-on-quarter. Deposit balances in Swiss franc terms remain roughly stable with inflows in Personal Banking, largely offset by outflows in corporate balances with lower liquidity value.

This was a strong outcome considering the current rates environment in Switzerland and the ongoing work in the business to gain share of wallet and to improve balance sheet efficiency, supporting our net interest margin in 1Q. NII increased by 3% sequentially to $1.1 billion, principally as higher reinvestment income more than offset declines in revenue from lower lending volumes and ongoing deposit mix shifts. In the second quarter, we expect a mid- to high single-digit percentage decrease in P&C's NII in U.S. dollars, more than offsetting the first quarter sequential gains, especially as the effects of the Swiss Central Bank's March interest rate cut hit through for a full quarter. For the full year 2024, we likewise expect a mid- to high single-digit percentage decline in P&C's NII versus 4Q '23 annualized.

We see NII holding broadly steady in U.S. dollar terms in 2H '24 as P&C's balance sheet management efforts to improve loan margins help to mitigate lower loan and deposit volumes as well as the modeled effects of two further 25 basis point rate cuts in Switzerland. The outlook also includes a $50 million annualized headwind from the effects of higher minimum reserve requirements at the Swiss Central Bank. Transaction-based revenues were up 9% in the quarter, principally on strong corporate client engagement. Recurring net fee income gained 5% sequentially on higher client asset balances supported by net new inflows in the quarter.

Credit loss expense was $39 million as PPA adjustments offset a similar level of charges on impaired loans acquired from Credit Suisse. Operating expenses were up 4% quarter-on-quarter, principally due to higher staff costs in Switzerland and a lease accounting credit recorded in the comparable quarter.

As illustrated on Slide 15, Underlying PBT and asset management decreased by 2% quarter-on-quarter to $182 million as lower revenues were only partially offset by reduced operating expenses. While net management fees were steady quarter-on-quarter, the sequential drop in the top line is explained by fourth quarter revenues, which included the gain from the sale of an investment stake as well as seasonally higher performance fees. Net new money in the quarter was $21 billion, due to several big-ticket inflows in mainly passive equity and fixed income funds, including money markets. We also continue to see client demand for SMA, sustainable investments in our private markets capabilities.

OpEx decreased by 7% to $594 million, mainly from lower personnel, technology and litigation costs. As I highlighted during the investor update in February, we aim to improve operating leverage and asset management by focusing on cost optimization across the entire division and realizing synergies from migration of clients on to UBS infrastructure over the course of 2025.

On to our Investment Bank's performance on Slide 16. As in prior quarters, we compare the results of the combined IB with stand-alone UBS performance on a year-on-year basis. Operating profit was $404 million, marking the IB's first profitable quarter since the acquisition and broad completion of the restructuring of the parts of Credit Suisse's IB that are core to our own. Return on attributed equity also turned positive and reached 10% for the quarter. Underlying revenues increased by 4% to $2.5 billion. Underscoring our efforts to increase the IB's market share in the U.S., the IB's top line increased by 29% in the region.

Banking maintained its strong momentum with overall revenues up by 52%. Notably, we also increased market share in the U.S., where banking now contributes 1/3 of total IB revenues, up from less than 20% a year ago. We continue to be pleased with our performance in Capital Markets, up 85% year-over-year as LCM, DCM and ECM, all saw increased activity levels, building on the momentum we saw in the fourth quarter. Advisory revenues increased by 11% as we continue to outperform the global fee pool. The recovery in M&A is continuing, particularly in the U.S. albeit with more subdued client sentiment and activity in APAC, where we have a large share of the market.

With our banking coverage teams now fully integrated, our pipeline offers encouraging revenue potential in the second half of 2024 and into 2025. Revenues in markets declined 5% to $1.9 billion, but were up 6% year-over-year in the Americas. Equities revenues driven by cash equities were up 3%. FRC, where we remain underweight by design, was down 21% with both rates and FX affected by lower volatility and decreased client activity. Operating expenses rose 8%, predominantly from additional costs related to personnel onboarded from Credit Suisse's Investment Bank, but importantly, dropped 4% sequentially, while revenues were up 32% quarter-on-quarter.

Moving to Slide 17. Non-core and Legacy pretax profit in the quarter was $197 million, supported by $1 billion in revenues, principally from gains on position exits. In addition to the securitized products transaction I mentioned earlier, the business recognized proceeds from the closeout of several complex and longer-dated positions above their book carrying amounts, including in its conduit and corporate loan books and within its longevity portfolio. Despite the strong revenue performance in the first quarter, we continue to expect the NCL book to ultimately close out across its various positions at more or less their current carrying values, meaning it is still appropriate to assume revenues of zero going forward, net of hedging and funding costs.

It is also important to reiterate that in pursuit of our priorities in NCL, we may at times sacrifice P&L on position exits to eliminate costs and release sub-optimally deployed capital. Nevertheless, given the strong revenue performance in 1Q, along with the significant progress we've made on costs, we now expect NCL's full year 2024 underlying PBT to be a loss of around $2.5 billion versus the expected $4 billion loss we signaled in February. As Sergio highlighted, we made substantial progress in reducing the NCL portfolio in the quarter, decreasing RWAs by $16 billion, principally in credit and market risk. In just nine months, we've run down $28 billion or almost 1/3 of NCL's risk-weighted assets.

From an LRD perspective, the overall portfolio is down by roughly half from 2Q '23 after a further reduction of $49 billion in the first quarter. As I covered earlier, a significant portion of the group's overall OpEx decline this quarter was delivered by NCL, which saw a 26% sequential drop in underlying costs to $769 million, primarily due to lower third-party, real estate and technology costs.

Moving to capital and financial resources on Slide 18. CET1 capital was broadly flat in the quarter, with profits generated in 1Q, offsetting our dividend accruals and $1.3 billion in negative currency translation effects. As we've highlighted, we made significant progress this quarter in reducing financial resource consumption across the bank from both the active rundown of NCL as well as balance sheet management initiatives across the core businesses. This resulted in a 4% sequential decline in RWA and a 6% reduction in LRD.

Credit and counterparty risk RWAs dropped by $11 billion from position sales and roll-offs as well as from risk model mitigation with currency effects contributing another $11 billion to the quarter-on-quarter decline. Market risk RWAs increased by $3 billion as asset size decreases were more than offset by the effects of model updates from the integration of time decay into our VAR calculations.

Slide 19 illustrates our strong capital position with a CET1 capital ratio of 14.8%, increasing by 40 basis points over the course of 1Q. As previously highlighted, a surplus above our CET1 capital ratio target of around 14% is necessary to cater for expected volatility in our reported profitability as we execute on the various phases of the integration. Our LCR at quarter end was 220%, reflecting ample levels of liquidity to remain compliant with the new Swiss liquidity ordinance that went live at the start of the year.

We remain focused on raising stable deposits with tenors, products and counterparty selection resulting in higher liquidity value. And we continue to apply discipline on pricing. Strong investor demand for our name in capital markets and improving conditions allowed us to complete nearly half of our full-year funding plan during the first quarter. We successfully placed over $5 billion in attractively priced HoldCo in January and $1.5 billion in AT1 across 2 transactions in February at spreads that were around 100 basis points inside our heavily subscribed November placement.

Similarly, secondary market spreads continue to tighten post-acquisition, having now dropped to February 2023 levels and together with ongoing diversification of our funding sources are supporting our plan to lower funding costs by around $1 billion by 2026. As part of the broadening out of our funding sources, we structured two first-of-their-kind transactions for UBS, including an issue of $1 billion in euro-denominated covered bonds and a private placement for size via repo of a portion of our portfolio of Swiss franc denominated covered bonds.

I would highlight that these trades were priced below the spread on the outstanding ELA line with the Swiss Central Bank. As to ELA, we have now repaid $29 billion of this line extended Credit Suisse pre-acquisition, including CHF9 billion just yesterday. We expect to repay the remaining $9 billion in the coming months.

Overall, our balance sheet management initiatives, together with actions on the funding side, that I just described, improved our loan-to-deposit ratio this quarter and narrowed the funding gap we inherited from Credit Suisse. Importantly, our efforts are helping us to offset NII headwinds and are contributing to the strength of our overall liquidity and funding profile.

With that, let's open for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. The first question is from Ryan Alastair from Bank of America. Please go ahead.

Alastair Ryan

Thank you. Good morning. Billion dollars beat in the quarter. I never did quite get the hang of this forecasting luck. Just on that non-core, very strong performance. I appreciate the updated run-off profile you gave us on Slide 6. Is there any reason that you're just reverting to natural runoff or can we expect continued sales if markets stay favorable because clearly, there's quite a meaningful driver of the very favorable capital ratio, the interactions of all of those?

And then secondly, the project to improve the revenue to risk-weighted assets in Wealth Management. I presume you wouldn't represent the Q1 performance as kind of the payoff of that project. It's too early. But just what's the profile of that project? How long is that repricing sitting on the net new asset generation and how has it started? Thank you.

Sergio Ermotti

Alastair, before I pass to Todd, I wanted to -- you were the first to ask the question not by coincidence, since I understand it's your last day at the office.

Alastair Ryan

Yes.

Sergio Ermotti

Well, enjoy your time off going forward. So, I'll pass it over to Todd. Thank you.

Todd Tuckner

Alastair, thanks for the questions. So, on NCL, I mean first, reverting to the natural runoff, we've been consistent in just reflecting the natural runoff profile. What I think the Slide 6 really does indicate is it really narrows that the delta between where we started as you could see where we set our ambition is to reduce to 5%. And the natural runoff profile has really come in. And so now you see that the delta between the natural runoff profile and where we -- our ambition is narrowed. So that should eliminate whatever uncertainty was considered. But I do think that it's appropriate still to reflect it that way.

In terms of whether we can do more, of course, we're going to continue to do what we can. We'll try to exit positions at or above their book values wherever possible, but it's appropriate to continue to stick with our guidance on NCL in terms of our approach and in terms of our expectations around revenues. On GWM in terms of revenue over the RWA, I mentioned that we're starting to see progress, which, of course, does suggest, you asked as it started, and it has. In fact, it started at the end of last year, and the business is quite active in it. And so, we would expect that we're going to continue to make progress on driving up RWA efficiency with respect to revenues in that respect over the course of the next couple of years.

You asked how long that will impact, how long will it go? How long will it impact net new assets? We said it's going to take the better part of two years, which is why we guided net new assets of around $200 billion over that two-year time frame, and we think that's the appropriate guidance still.

Operator

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

Chris Hallam

Yes. So, two for me. By the end of the year, I guess you'll be effectively halfway through the integration process in terms of gross savings. So, as you get through that process, are you starting to get a better picture of what you could expect for the net savings figure in relation to the $13 billion? Thought I think you mentioned the majority earlier. And does that change at all the phasing of the multiyear return on [indiscernible] path you laid out at the full year?

And then second question, Sergio, you referenced earlier that inefficient capital didn't cause the collapse of CS. And I guess in the final instance, what we really saw was a crisis in client confidence that drove that liquidity shortfall. So, when we talk about capital distribution, it's sort of automatic to assume that higher or earlier capital distribution resulted in lower capital ratios, which in turn reduces resilience. But when you talk to clients, how important is that distribution ambition as an indicator and driver of confidence in the business, i.e., could you argue that ultimately aligning our distribution strategy more closely with the distribution policies we see elsewhere in European financials actually increases client confidence in the business and improved resilience? There's a big perception difference basically between a firm that's buying back stock versus a firm that's issuing stock.

Todd Tuckner

Yes, Chris, I'll take the first. So, on whether the OpEx progress that we saw sort of informs a better view on the net that we'll get to. Look, I think we're quite pleased with our 1Q operating expense performance. We did highlight that we expect gross saves to be halfway to our $13 billion ambition at the end of the year, which is a bit better than we highlighted in February, in large part because of the 1Q performance that we saw.

But look, we still -- our ambition is a cost-to-income ratio of less than 70% at the end of 2026. That's what we're really focused on to manage to. And so how we pace any investments, which we'll continue to make in, for example, the resilience of our infrastructure, the organic growth in our core businesses, how we pace that will be a function of the revenue environment. So, it is still -- it is still way too early to change that perspective. But of course, we are pleased with the OpEx performance we saw in 1Q.

As to how that impacts on the return on CET1 path that you mentioned, I would say that coupled with the updated NCL full-year PBT guidance I gave, would have roughly 100 to slightly above basis point impact on the return on CET1, but I would still say mid-single digits is the right way to think about the full year ROCET1 even with the 1Q performance that we produced.

Sergio Ermotti

Yes, Chris, first of all, of course, having a strong capital position and a balance sheet for all seasons, as we call it, having a strict risk management approach and policies, and being very disciplined in the way we consume and manage all our resources is the pillar number one of our strategy. And I think it's almost a prerequisite to create the trust that clients need to have in any bank or any organizations. So, in that sense, I would only add that another very important indicator, which sometimes is in conflict with clients is your funding cost.

Of course, our clients would like to have always a higher return on the deposits and the investment they place with us. But on the other hand, when they see our funding cost being as competitive as we have now, they have the ultimate confirmation of the strength and the solidity of our franchise. So ultimately, at the end of the day, it's always a trade-off between different dynamics by, I would say, emotional and psychological dynamics. But I can only tell you that, of course, last but not least, having a full alignment of client trust and satisfaction, having shareholders being happy and having your employees being happy is the ultimate way to create sustainable value and trust in any bank.

And this is our philosophy. So of course, having an ability to compete in terms of growth and our global ambitions, but at the same time, being able to deliver attractive returns to shareholders, it's very important to influence the three stakeholders I mentioned.

Operator

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

Kian Abouhossein

Thank you for taking my question. I have a lot of detailed questions, but I wanted to ask two questions actually to Sergio, if I may. The first one is, Sergio, your first comments on the call today were, we were asked do a critical role in Switzerland. And the key here is you were asked to buy a distressed asset, a G-SIB asset and when you buy something, which you were asked to buy, you clearly are in control of the process. And I would assume, just like you do in an M&A transaction, you know that better than me, you have a MAC clause. And in this instance, I would assume after all the financial crisis issues that we had in 2012, '13 with mergers by regulators, there would have been an agreement that there's not over regulation for UBS post the Newco transaction.

And I wanted to see if there is anything like this. So, second question I have is, Sergio, you also commented that the assessment of capital will be based on what the final outcome is, I want to better know the outcome of these regulations. And one option is also to look at your legal entities and maybe close some of the legal entities ex and clearly a lot of [indiscernible] the U.S. they make lower return is by look at U.S. well ex LatAm, as well as the U.S. IB, I assume, makes lower returns. So, one option would be a restructuring or exiting of markets to rather than reducing capital return. I wanted to see if that is also an alternative. Thank you.

Sergio Ermotti

Thank you. Very good question. Yes. I think that -- let me put it that way that some of the conditions that were discussed and agreed that over that weekend that were clearly defined and communicated. For example, the -- the one in the respect of the antitrust and the competitive nature in our local markets, that has been very well defined and agreed. Others, I would say, were also discussed and agreed. Let me put it that way. I'm not so sure we can talk about a MAC clause. But as I mentioned in my opening remarks, we are delivering on our commitments. So, I'd probably stop here.

And in respect of the amount of capital, and I think it's clearly too early to speculate or respond to speculations around the capital. I just want to underline that when we talk about our parent company, UBS had already one of the best-in-class capitalization, the quality of our capital in the parent company was very strong. What I mentioned that is already embedded in our plan. We are absorbing $9 billion of concession granted to Credit Suisse. We are absorbing the progressive buffers that will come in as a consequence of market share and size. And we believe this is feasible and is part of the plan.

So, before we speculate about what we would do to respond to any other changes in regulatory requirements, we need to understand what they are, because, believe me, we have not been consulted. We don't know what. And so, we need to have the full picture before we respond to this kind of situations. But let me just say that having a global franchise, being competitive globally is what makes us a very attractive bank to our clients. Shrinking back to greatness is not a strategy and is not what will serve not only our clients and our shareholders well, but I'm also convinced it's not going to serve well Switzerland and its ambitions to be one of the leading financial center in the world. That's pretty clear to me.

Operator

The next question is from Giulia Miotto from Morgan Stanley from Morgan Stanley. Please go ahead.

Giulia Miotto

Good morning. So, two questions from me as well. The first one, just going back on the capital proposal again. And you said you were not consulted on this document, and you need to see what the final proposal looks like. So, looking forward, what are the next steps? Do we need to wait until June? Or are you now part of the discussion? Do you expect to have more clarity throughout the year? That's the first question.

And then the second question more related to the quarter. There was a strong performance in transaction fees better than I expected in Wealth. I'm wondering, is this just a transitory Q1 theme? Or is this continuing? And what should we expect there? Thank you.

Sergio Ermotti

I'll pick up the first one, and then I'll pass it to Todd for the second. I mean, the -- we are not yet clear if we're going to be formally a part of any consultation or any discussions. Of course, as I mentioned in my remarks, we will make sure that our considerations are heard by the regulatory bodies and policymakers, and so that we can contribute to a fact-based discussion. And of course, we also hope that the report of the investigating commission of the Parliament will highlight some of the reasons why Credit Suisse failed. And that should be a crucial element in contributing to a fact-based discussions on future regulations.

So, June, as you mentioned June, June is not a credible data because the commission is not expected to report before the end of the year. I also think that...

Giulia Miotto

June '25 I meant, sorry.

Sergio Ermotti

Yes, that one is -- I don't know about June 2025. I think that it's very unlikely that we're going to have more clarity about this matter in terms of what it means before year-end or early -- or even the early part of next year. So, in the meantime, we have to accept some level of uncertainty around this topic.

Todd Tuckner

Giulia, on the second question about TRX in GWM. So yes, very strong 1Q. In terms of how we -- how one should think about it overall and going forward, I'd say a few things. I mean, naturally, the environment needs to be conducive to strong transactional flows in 1Q was, but I would really highlight that it wasn't so much just beta, but actually, it's an environment where you started to see risk come on. You saw some uncertainty, and it's an environment that plays to our strengths, where we were able to advise in particular across our regions in more complex structured products where we saw significant volume up. So, it really played to our strengths.

And it also, I think, structurally reflects a couple of things. In addition, that I would say gives us confidence as we look out forward. One is that the Align product shelf, so across Credit Suisse and UBS coming together and the way we've approached clients from that sense. And on the U.S. side, as I highlighted, just really borrowing from the playbook outside the U.S., inside the U.S. to really approach clients more jointly with the investment bank is also paying off. So, we see there are some structural things that bode well as we look out. Of course, the environment needs to be conducive, but also an environment like the current one is one that plays to our strengths as mentioned and really allows us to drive transactional flows higher.

Operator

The next question is from Jeremy Sigee from BNP Paribas Exane. Please go ahead.

Jeremy Sigee

Thank you. Good morning. Two questions, please. One is, you talked about the Investment Bank and the core businesses that you've retained from Credit Suisse and the people you've brought over, I just wondered, are they now fully productive in revenue terms? Or is there some lag still to come through as those people ramp up? Are they up to speed already at this point?

And then my second question is sort of again on the capital theme. I saw in the report you reiterate your intention to do the $1 billion of buybacks in the second half of this year. I guess that's a small enough amount that you can do it pretty much regardless of the new capital proposals, but I just wanted to hear your thoughts on that.

Sergio Ermotti

Well, let me take the first question is very -- of course, everybody is now up and running and productive. And -- but when you look at banking, as you know, what does it mean being productive? There is a phase of going out and pitching and winning mandates and then it takes time until they get executed. So, in a sense, if you are asking me, if they are productive in pitching and being engaged with clients, they are. Everybody is full speed. The momentum in winning mandates is great. You could see it in the fourth quarter -- in the first quarter, we have executed many of them, and we are very comfortable that the investments and the trajectory of growth that we see going forward, if market conditions stay there to allow the execution of those mandates, are very promising.

In respect of $1 billion. So, I think that's -- at this stage, the only constraint we have right now is the waiting until the parent bank merger is executed. We expect this to be at the end of May. And if everything goes through successfully pending the regulatory approvals that we need, we intend to restart the share buyback with up to $1 billion for 2024.

Jeremy Sigee

Very helpful. Thank you.

Operator

The next question is from Andy Coombs from Citigroup. Please go ahead.

Andy Coombs

Good morning, two questions, please, and a follow-up. Firstly, on the non-core result. Obviously, a tremendous result both in terms of the RWA rundown, but also the gains that you booked during the quarter. Thank you for the revised guidance for the full year. I just wanted to better understand the source of those gains in Q1. I think you said conduit and corporate loan books and longevity portfolio, but you then don't expect that to repeat going forward. Is that because the low-hanging fruit has already been achieved or because you're now selling a different type of assets or anything you can elaborate there would be helpful?

And then the second question. Thank you for the opening remarks, Sergio, on the parent bank capital. I just wanted to check the $9 billion you referenced. Is that in relation to a 400% risk weight on foreign subsidiaries? Or is it a 300% as it currently is phased? And then more broadly, a question to both of you. In the event that the risk weight on foreign subsidiary does go up, to what extent do you think you can mitigate that through the fungibility of capital dividend, you have capital, so forth?

Todd Tuckner

Andrew, I'll address the first question. I mean in terms of the source of the gains, I think as you mentioned and as, of course, I highlighted, it came from a number of the sort of sectors within NCL, conduit and corporate loans, longevity, securitized products. We're also seeing strength in credit and equities and macro as well. And the team has been doing a great job in unwinding these complex, longer-dated transactions, and that continues to be what they're going to be focused on doing. So, the source of the gains comes from the ability to add a lot of value to these complex transactions. And to be able to get the transactions closed out at levels that are above book value.

As I highlighted, that's not an expectation that people should continue to have, not least just given that sometimes we're going to make decisions to get out of positions where we know there's significant cost takeout or there's suboptimal capital at the moment. It's very suboptimal from a capital efficiency perspective and so getting out will release that. So, there are going to be a number of factors that -- which is why we don't see 1Q repeating.

Sergio Ermotti

So, if I can add on that one before I touch on the second question. I think that first of all, there is definitely no low-hanging fruit. And if you look at our natural decay profile change, it shows you that we are not really going for easy to sell, but rather complex transaction that also helps in many cases to unwind cost, because priority number one in non-core is to take down cost and not necessarily to take down risk-weighted assets and market or credit risk-weighted assets.

So, in that sense, it's very important that in many cases, we are able, thanks the good work the team is doing in managing these unwinds, to leverage the fact that we are not a forced seller. We are only going to dispose assets when they create value to shareholders. And that is a completely different position to be in because our capital is strong. We can allow some delays or some time to elapse between the two. Now on the $9 billion, there are two factors and the elimination of the filter, of the regulatory filter that Credit Suisse had. The two combined account for $9 billion.

Andy Coombs

And the ability to mitigate any increase in the foreign subsidiaries going forward? I assume it's something you're already working on given the already base increase to what extent you think you could accelerate that?

Sergio Ermotti

No, the mitigation -- look, the mitigation I go back to -- I mean, I have to -- it's like a replay, push the button again and replay what I told you -- what I said before. We cannot speculate or respond to speculation or do analysis on things that we don't know. What we know is that we're going to hold as a consequence of the Credit Suisse acquisition, $9 billion plus $10 billion. So almost $20 billion of additional capital in an already very strong capital position UBS has. That's the fact. The rest, I don't know. And we will comment when we know more.

Operator

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

Anke Reingen

Thank you, very much for taking my question. I'm sorry to follow up, just one thing. I mean, is it fair to say that a result of the uncertainty, you are not really changing any step in your strategy and execution of the merger? And specifically, with Q4 results, you mentioned the potential amortization of additional detail, just confirming this on the current stage, this is going ahead. And then on the net new assets, the $17 billion in Q1, I'd be running below, if I was thinking about $100 billion for this year. Should be rather than $100 billion this year? Is it more like the $200 billion over the year -- two years and more back-end loan loaded towards the 2025 to reach the $200 billion? And has the decline in relationship managers had any impact on the net new asset growth in Q1? In the past, you gave us some numbers about the parting relationship managers and the assets they have taken with them. Is that still the case as being relatively low? Thank you, very much.

Sergio Ermotti

I'll take the first question. I think that's -- Anke, I think this is a very complex integration, and we cannot afford to be distracted in the execution of it. So, we are sticking to our strategy. We are sticking to our plan. We need to do that and at the same time, staying close to our clients. And so that's the reason why engaging in hypothetical change of strategy or methodology we use in assess our -- anything that goes around capital would be absolutely very distracting and not in the best interest of any stakeholders because what we want to have is a successful completion of this integration. And so, we stay focused on the existing strategy and our approach.

Todd Tuckner

Yes, on the second question in terms of net new assets in GWM, I would just reiterate that the trajectory that we highlighted over the next two years is, among other things, a function of the financial resource optimization and balance sheet initiatives that the team is hard at work and undertaking. So, $27 billion in the quarter is a strong result. We're on track to deliver on our ambitions, which we said was $200 billion over the course of two years. So, I would continue to think -- continue to think about that in those terms.

In terms of the RMs who have left, you mentioned that we had given some numbers in the past. Yes, I mean, that has continued just to taper as an impact, just given the number of RMs who have left has become sort of a non-topic at this point in time in terms of any current period. And in terms of the assets that they've taken with them, it is a very small percentage ultimately of given -- especially given the fact that the RM workforce in Credit Suisse is down 40% from the end of 2022 levels. And we've been able to retain the lion's share of the assets. So, we consider that to be sort of a story not terribly worth following. And in the end, we stay focused on our plans and our commitments.

Anke Reingen

Can I just ask on the DTA, please? Are you reiterating that you expect to convert the $2 billion and the $500 million you talked about with Q4 results?

Todd Tuckner

Yes, there's no change in terms of our approach to DTAs at the current time, Anke.

Operator

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

Ben Goy

Good morning. Two questions, please. One on the favorite topic, capital. Just conceptually trying to understand because when in the press it is reported or the Ministry of Finance for capital, we naturally assume it's CET1 capital. But do you think it could also partially include efficiency on capital which might make a bit more manageable for you? And then secondly, on your Wealth Management, the net new loans in the quarter, another decline is very similar to the Q4 decline. Just trying to reconcile that with your risk appetite returning statement, being conscious of the yields are still favorable, but wondering that is also more of a risk alignment still going on in the background, which is why your spending remains negative?

Sergio Ermotti

Benjamin, the first one is very short. As I said, we don't speculate or respond to speculation in respect of any numbers that has been flagged out there. So, it's not -- we are not in a position to understand where all those numbers are calculated. Therefore, we refrain from doing that.

Todd Tuckner

Yes. Benjamin, on the GWM net new lending side, we are seeing continued deleveraging. Some of that is market-driven and some of that, i.e., rates driven and some of that is as a function of the resource optimization work that we're doing. So that's an outcome that we're managing. To the extent it is the latter, we are looking to drive higher revenues. And therefore, I'm looking for the NIM to sort of hold up in that respect because we're improving the revenue over RWA consideration.

But obviously, in the current rates environment, too, we're seeing either the ends of deleveraging and still yet some reticence to relever in some of our regions. So, I expect that we won't have a lot of momentum on relevering in the current rates environment until we start to see rates come down over the -- assuming they do over the next, say, 12 months to 18 months. So that external factor won't be, to me, a big driver in terms of releverage.

Operator

The next question is from Piers Brown from HSBC. Please go ahead.

Piers Brown

Just two for me. Just coming back on the cost issue and the cost takeout in the quarter in the NCL unit. I mean it's quite impressive. You're down 26% quarter-on-quarter. And the cost takeout seems to be tracking more or less in line with the asset reduction. Just -- I mean, the question is, should we expect that sort of linear relationship to continue? Or was there something in particular in terms of front-loading cost takeout in the first quarter in NCL?

And then the second question is back to regulation. Not on capital, but just wondering if there's anything in any of the remarks, comments, reports published by the Competition Commission that we need to be mindful of just in terms of the domestic market shares of the new group. Thanks.

Todd Tuckner

Piers, in terms of the first question on the NCL cost takeout. There isn't a linear relationship. I would say it could be -- the relationship really doesn't have to flow linearly. And that's because the cost takeout will often come as a result of taking out a portfolio that sits on a given system or supported by a given infrastructure or application that we're able to shut down. But there is, of course, a relationship between the asset takeout and the cost takeout. I wouldn't say it's linear because you can have -- you could be taking out portions of the portfolio that still needs at least a large share of the headcount supporting that, whether it's the front office or mid or back that's still supporting the broader portfolio.

And if you're not really able to decommission the associated technology, you may not get the saves there. So not linear. But for sure, it's something we watch very carefully, and we're pleased to see that it is moving with a reasonably high degree of correlation.

Sergio Ermotti

Now on the competitive position, let's forget for a second, that we have a crystal-clear agreement on that topic. Even if you go down to the substance, which is, I think, is relevant for us, for consumers, for clients or everybody to understand. When you look at facts, it's quite clear that we have no dominant position in Switzerland in banking. So, I think that's no matter if you look at deposits, at loans or mortgages, you look at branch, number of branches in any dimension, UBS is not the largest bank in Switzerland in that sense. I think we are the leading bank in Switzerland because of our capabilities, but that should not be confused with market share and size.

So, in that sense, we are fairly comfortable that both the agreements and the facts support our position that our plan is the right one to pursue.

Operator

The next question is from Tom Hallett from KBW. Please go ahead.

Tom Hallett

Good morning. So just a quick one on Wealth Management NII. I think you were baking in 3 U.S. rate cuts for this year in your guidance. If that was zero, what was that? Or how would that alter your guidance? And then secondly, on the treatment of software intangibles, I suppose it's fair to say and get a bit more of a benefit relative to your European peers. I mean if you were to align the rules with Europe, what sort of impact would that have on your capital? Thank you.

Sergio Ermotti

So, on the second question, as I said before, we are not speculating on any change in our regulatory framework. The only thing I can say is that both in absolute global terms but also vis-a-vis the European peers, we have a pretty strong capital position, not only in absolute terms, but also the quality of our capital base.

Todd Tuckner

Tom, on GWM NII, yes, we modeled in mentioned 3 U.S. dollar rate cuts. If there were fewer than those like Sergio, even commented earlier that there is some upside. But of course, in our NII. But of course, that depends on client behavior. It depends on how the balance sheet behaves. So statically, yes, that would be corrected to be upside. If there were no rate cuts, you probably have some uptick of a point or two on the NII. But of course, we need to consider the dynamic relationship between client behavior and our balance sheet. So, it's difficult to -- difficult to predict. But yes, I would just take away that likely to be some degree of upside, all other things equal.

Sarah Mackey

Thank you. I think there are no further questions. So, with that, we can close the call and thank you, Sergio, and Todd for joining us today. We look forward to speaking with everyone again with our 2Q results.

Operator

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

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