UBS Group AG (UBS) Q4 2024 Earnings Conference Call Transcript

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Q4: 2025-02-04 Earnings Summary

EPS of $0.39 beats by $0.05 | Revenue of $11.73B (7.86% Y/Y) beats by $112.44M

UBS Group AG (NYSE:UBS) Q4 2024 Earnings Conference Call February 4, 2025 3:00 AM ET

Company Participants

Sarah Mackey - Head, IR
Sergio Ermotti - Group CEO
Todd Tuckner - Group CFO

Conference Call Participants

Chris Hallam - Goldman Sachs
Anke Reingen - RBC Capital Markets
Jeremy Sigee - BNP Paribas
Kian Abouhossein - JPMorgan
Giulia Miotto - Morgan Stanley
Stefan Stalmann - Autonomous Research
Andrew Coombs - Citigroup Inc.
Amit Goel - Mediobanca
Antonio Reale - Bank of America Merrill Lynch
Piers Brown - HSBC

Operator

Ladies and gentlemen, good morning. Welcome to the UBS Full Year 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 included in our Annual Report, together with additional disclosures in our SEC filings. On Slide 2, you can see our agenda for today. Sergio and Todd will go through our fourth quarter and full year results, as well as our investor update, before we move on to Q&A.

It's now my pleasure to hand over to Sergio Ermotti, Group’s CEO.

Sergio Ermotti

Thank you, Sarah, and good morning, everyone. Before we provide an update on how we are delivering on our priorities to meet our 2026 commitments, let me share some highlights for 2024. Strong fourth quarter results contributed to an even stronger full year financial performance as we rebuilt profitability across our businesses.

Our full year net profit of $5.1 billion and underlying return on CET1 capital of 8.7% reflect our unwavering commitment to serving our clients, our diversified global franchise, and the disciplined progress we have made on our integration plans. Throughout 2024, we maintained robust momentum as we captured growth across our global asset gathering platform and gained market share in the investment bank in the areas where we have made strategic investments.

With over 70 billion Swiss francs of loans granted or renewed during the year and outstanding balance of 350 billion, we also maintained our commitment as a reliable partner for the Swiss economy, supporting families and businesses to achieve their goals.

We delivered on all of our key integration milestones in 2024, including all major legal entity mergers and the successful completion of our client account migrations in Luxembourg, Hong Kong, Singapore, and Japan in the fourth quarter. This builds upon the successful integration of our key operating entities, the optimization of our balance sheet, and the reduction of cost and risk-weighted assets in non-core and legacy. Combined, these milestones have significantly reduced the execution risk of the Credit Suisse acquisition. As a result, we remained confident in our ability to substantially complete the integration and deliver on our financial targets by the end of 2026.

Our capital position remained robust as we ended the year with a CET1 capital ratio of 14.3%. For the financial year 2024, we intend to propose a dividend of $0.90, representing a 29% increase year-on-year. This is in line with our intention to calibrate the proportion of cash dividends and share repurchases.

As we execute on our business and integration plans, we are building additional capacity to invest in our people and to enhance our products and capabilities. This will allow us to better serve our clients and position UBS for future success. That includes the Americas, a region that remains a core component of both our asset-gathering foundation and our capital-efficient business model.

In 2024, we start to make changes across the business to introduce new capabilities that will help increase the operating leverage of our platform, improve profitability, and drive sustainable growth. Across all of our businesses and supporting functions, we continue to invest in technology, leveraging our strong foundation to improve the client experience and enhance how we operate.

Now, I hand over to Todd, who will cover the four-quarter results.

Todd Tuckner

Thank you Sergio, and good morning everyone. Throughout my remarks, I'll refer to underlying results in U.S. dollars and make year-over-year comparisons unless stated otherwise. For the fourth quarter, profit before tax tripled to $1.8 billion. Revenue momentum in our core franchises and cost synergies across the group drove a 12-point improvement in operating leverage. Our EPS for the quarter was $0.23, with a 7.2% underlying return on CET1 capital. Our underlying cost-income ratio was 82%.

Looking at the drivers of our fourth-quarter group performance on Slide 5, total revenues rose by 6% to $11 billion, driven mainly by strong top-line growth in global wealth management and the investment bank, powered by our capabilities and advice in supportive market conditions. Operating expenses declined by 6% year-over-year to $9.1 billion and were 1% lower sequentially as progress on synergies and a stronger U.S. dollar more than offset the expected 4Q tick-up in non-personnel expenses.

This achievement was supported by a lower overall employee count, which fell sequentially by another 2% to below 129,000. The total staff count is down 27,000, or 17% from our 2022 baseline.

Excluding litigation, variable compensation, and currency effects, operating expenses decreased by 9% year-over-year. The 4% quarter-over-quarter increase was caused by seasonally higher charges, including the U.K. bank levy and increased marketing expenditures. Our reported profit before tax for the quarter included $0.7 billion of revenue adjustments relating to PPA effects, a remeasurement loss of $0.1 billion on an investment in an associate, and $1.3 billion of integration-related expenses. Reported net profit was $0.8 billion in the quarter on an effective tax rate of 26%. We expect a similar tax rate in the first quarter.

Turning to our business divisions and starting with global wealth management on Slide 6. GWM's pre-tax profit was $1.1 billion, an increase of over 80% as revenues grew by 10%. Excluding litigation charges, PBT rose to $1.2 billion. Net new assets reached $18 billion, and net new fee-generating assets were $13 billion, fueled by sales of mandates and separately managed accounts. Flow performance this quarter reflects the maturity of over $50 billion of fixed-term deposits associated with our 2023 win-back campaign. Like in previous quarters, we managed to retain over 85% on our platform, including converting over 20% into more profitable solutions, including mandates.

For the full year 2024, we acquired net new assets of $97 billion, representing a 2.5% growth rate. As I've highlighted in the past, our net new asset achievement this year reflects several challenges that we successfully navigated over the course of 2024. This includes retaining the vast majority of Credit Suisse invested assets, despite significant levels of relationship manager attrition, keeping the bulk of maturing fixed-term deposits, as just mentioned in the context of 4Q, and increasing profitability on sub-hurdle lending relationships from our balance sheet optimization efforts.

Collectively, while these factors weighed down flows by around $30 billion, importantly, they've contributed to enhanced profitability and returns. This is evidenced by the 3 percentage point year-over-year increase in revenues over RWA.

Recurring net fee income increased by 12% to $3.3 billion, as our invested assets grew sequentially to $4.2 trillion, absorbing roughly $80 billion in FX headwinds. Client traction with mandates remained strong, with around $5 billion in net new mandates globally, mainly driven by sales of our differentiated discretionary solutions and supported by continued momentum in SMAs in the U.S. Margins held up sequentially and are expected to remain around these levels, especially as recently migrated clients and those remaining on the Credit Suisse platform now have access to the full breadth of our CIO value chain-led offering.

This quarter, we once again demonstrated the benefits of combining our leading market's solutions and capabilities with our CIO's investment calls. This drove a 12% increase in transaction-based revenues in an environment that saw broad re-risking after the U.S. elections. Structured products, equities, and alternatives all recorded double-digit transaction revenue increases. Our investments and capabilities, solutions, and unified teams support the durability of this revenue line and fuel our ability to capture wallet share in all climates

Year on year transaction revenue growth was led by APAC and the Americas up by 30% and 13% respectively. Net interest income at $1.7 billion was up 4% sequentially reflecting improvements in both lending and deposit margins. While fixed term deposit balance is decreased in the quarter, we saw inflows into sweeps and current accounts across our platform as our clients increased transactional balances in a constructive trading environment.

I would note that the planned sweep deposit pricing changes I mentioned previously went into effect for our U.S. Advisory accounts in early December. Our 2025 outlook as a result of introducing these rate adjustments remains unchanged.

Turning to our NII outlook for GWM. Since I offered an initial view on 2025 last quarter, we've seen a significant divergence in rates expectations between the U.S. dollar on the one hand and the Swiss franc and euro on the other. This distinction is important for GWM, while our U.S. business is effectively operated entirely in U.S. dollars in GWM's businesses outside the U.S., half of all deposits and the majority of loans and low beta transactional account balances are denominated in currencies other than the U.S. dollar.

Looking at the rates outlook. The Federal Reserve is now expected to cut U.S. dollar rates more gradually. Meanwhile, both the Swiss and the European Central Banks are expected to continue to more actively cut. Based on this in the first quarter we expect to see headwinds from lower rates particularly in the Swiss franc and euro and lower balances from deployment of sweep and transactional account balances partially offset by higher margins from balance sheet optimization. Combined with a lower day count effect, this is expected to result in a low to mid-single-digit percentage sequential decrease in GWM's NII.

Looking further out, lower Swiss franc and euro rates will remain a headwind to deposit margins partially offset by the benefits of continued balance sheet optimization particularly on the deposit side, net new loan growth should also help. I should note that if we do see a more hawkish U.S. dollar rates policy while helpful to deposit margins. This is likely to moderate the extent of re-leveraging particularly in Lombard lending.

For full year 2025 compared to 2024, we expect a low single-digit percentage decrease in NII, inflecting by 2Q with the second half of the year broadly flat versus 2H ’24. Underlying operating expenses were unchanged from last year at $4.8 billion with lower personnel and support cost offset by higher variable compensation tied to revenues and increased litigation provisions. To offer a look-through comparison excluding litigation, variable compensation, FX and last year's FDIC special assessment costs were down 5% year-over-year.

Turning to personal and corporate banking on Slide 7. P&C delivered fourth quarter pre-tax profit of 572 million Swiss francs, down 18% primarily from lower interest rates affecting net interest income down 8% and elevated credit loss expense. Recurring net fee income increased by 8% driven by higher volumes of investment products and gross margin expansion. Transaction based revenues were up 13% also on higher client activity. Sequentially NII decreased slightly by 1%. We offset some of the effects of the SNB's third 25 basis point rate cut from late September by moderately decreasing deposit rates and pricing loans to appropriately reflect risk and capital costs.

After the 50 basis point cut by the SNB in December there is a reasonable likelihood that we'll see interest rates drop to zero by mid-2025. The impact of near zero rates will drive down deposit margins both sequentially and for the full year 2025. Additional headwinds in 1Q are expected from the sequential day count effect and lower rates in U.S. dollar and euro affecting deposit margins on transactional accounts. Hence for P&C's Swiss franc NII We currently expect a roughly 10% sequential decline in the first quarter.

For full year 2025 the drop will be somewhat more pronounced versus 2024 with NII expected to trough in the second quarter and plateau thereafter. From there any move in interest rates whether negative or positive should be constructive to our NII and net interest margin in P&C. Credit loss expense was 155 million Swiss francs, a 25 basis point cost of risk on an average loan portfolio of $243 billion. The quarterly result was driven by stage 3 charges, predominantly from new venture financings and loans to corporates in the metals and automotive industries, which have shown financial vulnerability in a challenging market environment across Europe.

These exposures by and large are on the Credit Suisse platform reflecting lending practices and underwriting standards from the pre-acquisition period. We expect CLE to remain elevated at around 350 million Swiss francs in 2025, as we continue to build allowances for pre-acquisition Credit Suisse portfolios with many exposures still having more than a year until maturity. In the first quarter We may see lower CLE versus the implied quarterly average due to seasonal factors.

Operating expenses in P&C will 1.1 billion Swiss francs up 2% and flat sequentially as the business offset increased investments in building up support functions related to its larger footprint through cost reduction initiatives and synergy realization?

Moving to asset management on Slide 8. Pre-tax profit increased by 20% to $224 million as strong cost discipline more than offset lower revenues. Overall revenues were down 7% or 6% excluding gains on asset sales. Net management fees declined by 5% mainly from continuing shifts out of active equities compressing top line margins. Performance fees were $44 million, compared to $52 million in the prior year quarter with improvement in hedge fund solutions more than offset by decreases across other products including fixed income funds.

Net new money in the quarter was positive $33 billion led by a large institutional inflow and passive equities and net flows into money market funds. For the full year 2024 net new money was $45 billion a strong result in light of flow dy-synergies we were expecting from integrating Credit Suisse Asset Management.

Operating expenses were 15% lower both year-over-year and sequentially as the business is demonstrating good progress in transforming its operating model and driving cost saves.

On to Slide 9 and the investment bank. Pre-tax profit of $452 million was driven by strong revenue performance, up 37% year-on-year. Banking revenues increased by 19% to $675 million with advisory up 36% and LCM which more than doubled its revenues the main drivers of growth. Regionally, we saw particular strength in the Americas up 33%. Markets revenues increased by 44% to $1.9 billion with increased client activity on higher cash volumes and supportive volatility across equities and FX. This led to our best fourth quarter markets revenue on record with particular strength in financing supported by all-time high client balances.

For markets, regional revenues in the Americas and APAC surged by around 50% and grew by about a third in EMEA, driven by broad based increases across both equities and FRC. Operating expenses were down 4% on lower personnel costs.

On Slide 10, non-core and legacies pre-tax loss in the quarter was $606 million. Revenues were negative $58 million mainly reflecting funding costs that unlike in prior quarters were not offset by gains on exits or the carry in our now much smaller credit book. Operating expenses were down by nearly 50% year-on-year and 5% sequentially as we continue to make good progress in driving out costs. NCL risk weighted assets were $41 billion down $3 billion sequentially mainly from position exits. LRD was down $15 billion or 22% quarter-on-quarter.

Turning to our capital and balance sheet position on Slide 11. As of the end of the fourth quarter our balance sheet for all seasons consisted of $1.6 trillion in total assets including around $600 billion at end of period loans and $750 billion in end of period deposits. Our loan portfolio reflected credit impaired exposures of 1%, up sequentially by four basis points. The cost of risk in the quarter increased to 15 basis points as credit loss expense in our Swiss business drove this measure higher.

We ended the year with a sequentially unchanged CET1 capital ratio of 14.3% as a decline in CET1 capital of $2.8 billion was offset by a proportionate decrease in risk weighted assets of $21 billion. CET1 capital was mainly affected by the stronger U.S. dollar as well as by higher cash taxes and dividend accruals more than offsetting quarterly profits. RWA likewise was lower on current effects as well as asset size reductions, mainly in the IB and NCL.

To summarize, our fourth quarter performance caps off a strong 2024 in which our non-core and legacy team successfully ran down balance sheet and costs, and our core franchises demonstrated strength and scale in delivering for our clients even while absorbing substantial costs associated with the integration.

With that, I hand back to Sergio, for the investor update.

Sergio Ermotti

Thank you, Todd. For over a decade, UBS has been a source of strength and stability for all of our stakeholders thanks to the consistent execution of our capital generative strategy and a commitment to maintaining a balance sheet for all seasons. Our global capabilities empower strong collaboration across our businesses to deliver the best of UBS to our clients and our disciplined focus on risk and efficiency is at the forefront of our culture. This is why our clients continue to extend their trust and confidence in UBS and our employees are proud to work here.

It is how we generate significant value for our shareholders while remaining a consistent and reliable economic partner in the communities where we operate. And it has also allowed us to be a source of financial stability for Switzerland and the wider financial system in March 2023. The same principles guide us as we build an even stronger, safer and more efficient firm and position UBS for sustainably higher returns and long-term growth.

Our unique business model with our asset-gathering businesses generating around 60% of our revenues provides us with an attractive risk and return profile that continues to stand out among our global peers. We are the largest truly global wealth manager and the leading universal bank in Switzerland. These two key pillars of our strategy are enhanced by a portfolio of best-in-class capabilities across asset management and our competitive but capital-light investment bank.

With leading franchises in the world's largest and fastest-growing markets, our regional diversification is a strategic advantage and also provides us unique value for both our clients and investors.

Turning to the integration, as I highlighted earlier, we are on track with our plans thanks to the successful delivery of our key objectives in 2024, having completed over 4,000 milestones during the year. Following the merger of our parent banks, we have now migrated over 90% of client accounts outside of Switzerland onto UBS platforms.

In addition, the integration of the investment bank is now complete and in asset management we made good progress migrating portfolios onto our infrastructure and rationalizing our fund shelf. We also continue to follow our technology decommissioning roadmap. To date, we have removed over 40% of non-current legacy applications, worked through 16 petabytes of data and reduced the number of legacy servers by over 40%.

Thanks to our restructuring efforts and the active wind down of NCL, we have captured almost 60% of our targeted $13 billion gross cost savings. We will look to maintain this momentum in 2025 as our focus shifts to migrating the majority of client accounts in Switzerland and decommissioning over 1,200 Credit Suisse models and applications.

We have always said that our progress on the integration of Credit Suisse will not be a straight line. Our performance in 2025 will continue to reflect significant restructuring work necessary to integrate our businesses and right size our cost base. Having said that, our progress to date supports an incremental improvement in our returns this year compared to our previous guidance. We remain confident in our ability to substantially complete the integration and deliver on our targets and ambitions by the end of 2026. At the same time, we will continue to invest to drive sustainable growth and long-term value beyond the integration.

Investing in technology to benefit our clients and empower our colleagues is one of the key ways we are preparing for the future. We continue to invest in our best-in-class cloud infrastructure with over 70% in the public and private cloud. This is a key facilitator of our integration progress, allowing us to reduce complexity and cost as we remove legacy applications while maintaining our compliance and security standards.

It is also an important catalyst for innovation as we continue to invest in tools to enhance our client offering and increase efficiency and effectiveness. A good example is our rollout of 50,000 Microsoft co-pilot licenses to our employees in the largest deployment within the global financial services industry to date.

We are also seeing strong benefits from our proprietary generative AI solutions. One example is in the U.S. where our advanced analytics platform supported our financial advisors with over 13 million automated insights and actionable opportunities. Solutions like this improve productivity and our ability to deliver tailored solutions to our clients.

We are on track to deliver on our 2026 exit rate ambitions across our core businesses. While we are encouraged by our progress to date, this slide also reflects the significant work that lies ahead to achieve our objectives. In GWM, we remain focused on leveraging our enhanced capabilities and solutions to maintain client momentum. At the same time, we aim to capture the benefits of integration-related synergies and improve advisor productivity.

With the client account migration achieved in APAC, we are even better placed to leverage our number one position in the region to drive market-leading growth. In the Americas, we are making targeted investments to deepen relationships with our ultra-high-network clients, accelerate growth in the high-network and core-affluent segments, and expand our loan and deposit offerings.

These growth initiatives will be supported by actions we have already taken to enhance our technology offerings, simplify our organizational structure, and improve execution. I am confident in our ability to deliver mid-team PBT margins as we exit 2026. Then, the business will be better positioned to further expand profit margins and capture long-term growth.

Todd will take you through our plans in more detail.

In PNC, as we have said previously, declining Swiss franc rates are expected to continue to affect revenues. We are still de facto operating two separate banks, including branches, staff, and technology, but we are well positioned to start delivering cost synergies later this year and into 2026 as we unite those platforms.

Unfortunately, as we reported previously, this will lead to certain role reductions in Switzerland. We plan to mitigate the impact of this as much as possible through natural attrition, early retirement, and other measures. For those impacted, we will provide proactive support in helping to find a new job and a comprehensive social plan that combines the strongest components of the prior UBS and Credit Suisse plans.

I am also especially proud of efforts to prioritize the hiring of internal candidates. Over two-thirds of open positions in Switzerland were filled this way in 2024.

In Asset Management, we remain focused on continuing to capture opportunities where we have a differentiated and scalable offering. This includes our newly launched Unified Global Alternatives unit, which makes us the fifth largest limited partner in alternatives with promising growth prospects. At the same time, we will remain focused on realizing cost synergies and structural efficiencies to create capacity for investment and improved profitability.

In the investment bank, I'm encouraged by the progress our fully integrated teams are making to deliver for clients as we see market share gains in our areas of strategic importance. As we continue to deploy our products and services across our broader institutional client base and increase connectivity to GWM and PNC to deliver on our return ambitions, we will maintain our well-established risk and capital discipline.

Turning to capital, we continue to target a CET1 capital ratio of around 14%. At this level, we will be able to go through the integration period and beyond with a strong capital buffer relative to minimum requirements. This will allow us to remain a source of stability while we self-fund growth and deliver attractive capital returns to our shareholders.

For the 2025 financial year, we plan to accrue for an increase in our dividend of around 10%. We also plan to repurchase another $1 billion of shares in the first half of this year and up to an additional $2 billion in the second half. As in the past, our share repurchases will be consistent with delivering on our financial plans and maintaining our CET1 capital ratio target of around 14% and assuming no material immediate changes to the current capital regime. Our ambition for capital returns to exceed pre-acquisition levels in 2026 remains unchanged.

Now, following the publication of the Parliamentary Investigation Commission's report in December, we expect further developments in the ongoing review of the capital regime in Switzerland. Based on the latest public communication from the State Secretariat for International Finance, the public consultation on the proposal is expected to begin in May. Therefore, at this time, we are not in a position to offer any new information.

As we have said in the past, we support the vast majority of proposals from the Swiss Federal Council on how to enhance the regulatory framework in Switzerland. In our discussions with Swiss authorities, we continue to maintain our view that the Swiss capital regime is one of the strongest when consistently and coherently applied.

While it is also crystal clear that the overall quality of our capital is of much higher standard than Credit Suisse's, we accept that some adjustments and clarifications to the current regime may be necessary. However, a disproportionate outcome in terms of requirements at the parent bank level would drive our capital at the group level to overshoot the current requirements. Therefore, we believe that any significant change is unjustified.

Offsetting the consequences of higher requirements would make us uncompetitive domestically and abroad, hamper our ability to help clients grow, and importantly, make banking services more expensive for Swiss families and enterprises in the long run. It will also damage the nation's standing as an attractive global financial center and ultimately hurt our position as the third largest private employer in Switzerland.

Of course, this would have an impact on our returns on capital, but even more importantly, it would impede our ability to compete for capital in the global marketplace, particularly in a moment of financial stress. As a reminder, our current ambitions are based on a 14% CET1 capital ratio.

I've been reading some recent reports, so let me be very clear. There are no easy fixes in terms of repatriation of capital from foreign subsidiaries or balance sheet optimization that are not already included in our plans. Therefore, while I'm extremely confident in our capital generation capacity under any outcome, our shareholders' return and return on capital would be effective.

Todd will provide more details later.

We want to continue to be a source of strength for our clients, employees, shareholders, and Switzerland. For that reason, it is very important that a comprehensive cost-benefit analysis on the consequences of any material changes of capital requirements is carried out. We remain hopeful that any potential changes will be proportionate, targeted, and internationally aligned, and coherent with the strategic objectives set out by the Swiss Federal Council.

As I mentioned before, we have substantially de-risked the integration across many dimensions. This is reflected in our return profile, which has significantly improved compared to a year ago. Our goal is to continue to rebuild profitability in 2025 as we further progress our integration plan and capture the benefits of our enhanced scale and capabilities across our businesses. We remain well-positioned to deliver on our 15% return on CET1 capital target by the end of 2026. We will then look to achieve UBS's pre-acquisition levels of profitability and deliver on our 2028 ambitions.

We have achieved so much over the last two years, and I'm proud of the immense effort of all of my colleagues. But there is no room for complacency, and we remain focused on serving our clients, delivering on the next phase of the integration, and fulfilling our growth initiatives as we position UBS for a successful future.

With that, I hand back to Todd for more details on our plans.

Todd Tuckner

Thanks again, Sergio. I'll now offer a more detailed perspective on our financial outlook for 2025 and the trajectory towards our exit 2026 targets and ambitions, starting on Slide 21.

With each of our core businesses well-positioned to drive sustainable growth, in 2025, we expect to generate an underlying return on CET1 capital of around 10% versus 8.7% in 2024. This year-on-year increase reflects our expectations that non-core and legacy will weigh on our financial performance more significantly than last year. Importantly, this also means that our core businesses are expected to be the main drivers of year-on-year growth and returns, despite continuing to absorb, together with NCL, the costs associated with restructuring and integrating the businesses, legal entities, infrastructure, and teams inherited with the acquisition.

For full year 2025, we expect an effective tax rate of around 20%, as we aim to implement tax planning later in the year, mainly related to the combination of legal entities in the U.S. The acceleration we expect in 2026, when our in-year return on CET1 should be low teams and our exit rate around 15%, will be driven predominantly by the benefits from more than three years of extensive integration, restructuring, and transformation effort.

As I've highlighted in the past, we continue to expect more significant cost reductions across the core businesses as we retire legacy infrastructure and create further staff capacity. Revenue should also receive an uplift as we complete the integration and play more on our front foot with no distractions, generating alpha across our core franchises.

Moreover, most of the headwinds to returns we see in 2025 are expected to dissipate by the end of 2026. These include NII and credit loss expenses in Switzerland, with the latter, starting next year, expected to reflect the substantial conversion towards PNC's historical average cost of risk as a result of increased allowances and legacy Credit Suisse loan maturities.

Additionally, as we exit 2026, we expect to see better profitability in our U.S. wealth business and further reductions to our non-core and legacy portfolio, decreasing its drag on resources and profits. As I've mentioned before, the plans underpinning our ambitions are largely determined by factors within our control. While we expect to continue to invest for growth, we retain the necessary optionality and operating flexibility to support our profitability and returns ambitions, regardless of market conditions.

Turning to costs on Slide 22, as of year-end, we've delivered $7.5 billion of cumulative gross run rate cost saves, of which $3.4 billion in 2024, putting us well on track towards achieving our goal of around $13 billion by the end of 2026. Of the cumulative gross saves achieved to date, $4 billion contributed to net cost reductions with much of this progress driven by NCL.

Importantly, while the overall cost base decreased by 10% from its 2022 baseline, if we exclude litigation and variable compensation linked to revenues, we delivered a 17% net reduction in underlying expenses on this look-through basis. Looking out over the next two years, we expect around $5.5 billion of additional gross cost saves across technology, third-party spend, real estate, and from unlocking additional staff capacity.

As we've highlighted previously, while we remain continuously focused on driving cost savings by reducing duplication and streamlining wherever possible, we do not expect our sequential cost reduction to be linear. The impact on our cost base varies each quarter, depending on the timing of large-scale integration initiatives that drive efficiencies across infrastructure, real estate, and workforce optimization.

Over the next two years, the most meaningful driver of cost reductions will be the decommissioning of legacy infrastructure, with the most prominent example, the retirement of the Swiss platform, which will only happen after the client account migration is finalized next year. At that point, we'll decommission the associated hardware, data centers, and software applications, including systems in the middle and back office that are linked to client-facing platforms.

The continued rundown of NCL and further rationalization of our real estate footprint and legal entity structure will also support our realizing cost synergies over the next two years, as we work towards our exit 2026 cost-income ratio target of less than 70%. Moreover, with almost 60% of our gross cost-save ambition achieved through the end of 2024, we now have a clearer line of sight as to the cost to achieve the successful completion of our integration plans.

We now expect cumulative integration-related expenses to total around $14 billion. The $1 billion in incremental spend largely compensates for lower-than-anticipated staff attrition levels and accelerated real estate exits. It also accounts for investments in new opportunities to unlock long-term value creation in connection with select Credit Suisse businesses.

Turning to our business divisions and starting with global wealth management on Slide 23. With over $4 trillion in invested assets, our scale, global connectivity, innovation, and CIO-led advice and solutions uniquely position us to capture wallet and seize growth opportunities across our global footprint. GWM Americas, which comprises our U.S., Canada, and Latin America wealth businesses, is a leading wealth management provider, with $2.1 trillion of assets served by nearly 6,000 financial advisors.

In Switzerland and EMEA, we are the number one player, combining our global offering with regional adaptations and client proximity. And in APAC, with a broad and well-diversified footprint, we're the number one wealth manager, twice as large as our next closest competitor.

Moving to Slide 24. In 2024, GWM recorded an underlying pre-tax profit of almost $5 billion and an underlying cost-to-income ratio of 80%, while restoring its capital efficiency to levels similar to those before the acquisition. In 2025, returns are expected to grow year over year as we continue to capitalize on our enduring competitive advantages, underpinned by secular tailwinds. The industry trends we see accelerating across our global family, ultra, and high-net-worth client segments, including legacy and longevity-based planning needs, geographic wealth migration, and multidisciplinary client solutions, play right to our strengths.

We expect these dynamics to drive revenue growth in 2025. Moreover, our teams of advisors, investment managers, and solution specialists are leveraging our client account migration efforts as a unique opportunity to review and rebalance client portfolios, while supporting our clients during their transition to the UBS platform. This work supports our outlook of continued increasing mandate penetration and gross margin stability.

Also, GWM's costs are expected to decrease over the course of 2025, principally as we decommission platforms following the first wave of client account migration work completed last year. As in 2024, GWM's net new asset ambition will continue to reflect the actions and other dynamics I've highlighted that support higher pre-tax margins and returns on attributed equity, but at times come at the expense of flows.

While in Switzerland, EMEA, and APAC, the impact on flows is expected to soften over the course of the year, in the U.S., our efforts to align financial advisor incentives with our strategic priorities may result in a short-term increase in FAA attrition, creating an additional headwind for net new assets in the coming months. We therefore maintain our net new asset ambition of around $100 billion for 2025.

Yet, in 2026, with the integration behind us and flow headwinds fully addressed, we expect GWM net new assets to begin to accelerate towards our ambition of $200 billion per annum and over $5 trillion in invested assets by 2028. Moreover, the improvement in ECM activity we're starting to observe across the globe should ultimately play to our asset-gathering strengths.

This coincides with increasing levels of monetization among wealth management clients, which is expected to translate into greater opportunities to intensify engagement, capture share of wallet, and deliver advice and solutions.

Moving to the Americas on Slide 25, our Americas wealth business, our foothold into the world's largest wealth pool, is a key pillar of our long-term growth strategy and value proposition to clients. In addition to accounting for around 50% of our total asset base, it also contributes a similar proportion to GWM's global revenues. Given the strategic importance of the Americas business, we recognize that improving its financial performance is both a necessity and a priority.

Since 2019, we've grown the region's invested assets and revenues at a CAGR of 8% and 4%, respectively, and delivered profit margins averaging mid-teens. After reaching a record pre-tax margin of 19% in 2021, we've seen profitability retreat to its current level of around 10%. While our revenues have grown, expenses have grown faster.

With a business model mostly geared towards the most financially sophisticated ultra and family clients, the post-pandemic market dynamics of rising equity prices and soaring interest rates caused a shift in our revenue mix that drove up variable compensation levels and compressed profit margins. At the same time, technology costs were increasing as part of our efforts to improve and modernize the digital experience for our clients and advisors, but also to address past investments in large programs where delivery had been suboptimal. On top of this, the cost of recruiting advisors, back office spend, and litigation charges all grew.

To address these challenges, we're changing how we operate to improve profitability and position the business for more efficient and sustainable growth. Since the end of last year, we've already taken actions to streamline our organizational structure, improve cost discipline, and align the incentives of our financial advisors to our strategic objectives.

As these changes take hold, and given our intention to fund incremental strategic investments, we expect our pre-tax margin in 2025 to remain at broadly current levels. We then expect to make more material progress and steadily improve towards mid-teens by 2027. At that point, the business will be better positioned to further expand its profitability and help the global wealth franchise deliver beyond its end 2026 target of a greater than 30% underlying pre-tax margin.

Let me highlight the key changes we're implementing on Slide 26. First, on service models. Our strong track record in serving sophisticated clients demonstrates the effectiveness of close collaboration across the organization. This is clearly reflected in the 21% year-over-year increase in America's transactional revenues after we introduced joint coverage of GWM clients with IB markets specialists.

Moreover, our experience tells us that the use of one or more of our specialized capabilities has a meaningful multiplier effect on revenue generation. We're building a regionally aligned multidisciplinary team approach and extending this offering to a broader population of our existing ultra-high net worth clients to accelerate revenue growth. We're rolling out this setup immediately and scaling it over the course of 2025

Second, on client mix. Going forward we intend to better balance our client base across wealth bands by increasing investment and penetration in the high net worth and core affluent segments to drive scale and profitability. To that end, we're streamlining and automating product and content distribution and developing more tailored segment specific solutions leveraging our CIO and national sales capabilities.

In addition, we're investing in our digitally led advice model in the Wealth Advice Center to make it a more meaningful contributor to organic growth and to lower our cost to serve. By more than doubling our Advice Center staff, we aim to create further capacity to acquire and serve more clients and increase wallet with existing ones. In addition, the Wealth Advice Center becomes an effective pipeline for future FAs and a more cost-efficient way to scale our business.

Another key aspect of our rebalancing efforts relates to enhancing our feeder channels. We intend to expand sources of asset acquisition by revising our referral and incentive structures while centralizing and investing in digital marketing.

We're also developing a comprehensive integrated workplace wealth solution across equity and retirement plans and financial planning and wellness. We believe a signature workplace wealth offering with state-of-the-art digital capabilities will serve as a highly effective client lead generator aligning with our priority to improve penetration across wealth bands.

Third, on the capability side we're taking critical steps to build out a full suite of banking capabilities to enhance our ability to serve our clients and their business interests. This will help us expand our access to deposits better balance our revenue mix deepen client relationships and importantly foster enduring engagement and connectivity between our clients and UBS. Expanding and enhancing our banking product offering requires that we obtain a National Charter, a multi-year process that is presently in full swing.

Now moving to Slide 27 underpinning these initiatives and their success is a necessary operational realignment of the structure, performance culture and tech strategy in our America's wealth franchise. So fourth, effective January 1st, we simplify the organizational structure to drive greater collaboration reduce duplication and create synergies thereby contributing to improve productivity and efficiency. This includes regionally aligning our client facing teams reducing management layers and fostering clear accountability and faster decision-making.

Recently, we also announced changes to our financial advisor compensation model. We aim to better align FA incentives with the strategic goals of the firm by rewarding net new money, new client acquisition and the broadening of existing client relationships with a specific incentive for NII growth. While we design these changes to incentivize greater production and ultimately higher compensation levels for advisors in full sync with our strategy, we may see a short-term rise in FA attrition, which is reflected in our pre-tax margin expectation for 2025.

And finally, we're implementing a strategic reset in terms of how we invest and modernize our technology infrastructure. We're now delivering new and advanced digital capabilities and a dynamic modular fashion that make it easier for our clients and advisors to do business with and on behalf of UBS. This approach will enable more efficient execution of our technology roadmap with improved payback which together with an expanded tech budget will create additional capacity to fund innovative solutions to improve advisor productivity and drive growth.

We believe these actions which are being decisively executed by our new leadership team will drive margins to a mid-teens level by 2027 while positioning the America's wealth business for long-term growth.

A final word on providing more visibility to track our performance going forward. While the ultimate measure of our progress in the Americas is improvement in our regional pre-tax margin beginning in 1Q will enhance our regional disclosure by breaking out revenue across the various categories and including prior period confidence.

Turning to Slide 26 and on to our Swiss business. As the leading bank for corporate and private clients in the country our Swiss Universal Bank with P&C at its core showcases the power of close collaboration creating value for clients even while absorbing NII and CLE headwinds optimizing its balance sheet and preparing for the client account migration P&C alone contributed over one-third of the group's 2024 underlying pre-tax profits.

As we expect the headwinds I highlighted earlier to weigh on P&C's returns in 2025 we aim to partially mitigate the effect of these challenges by growing non-NII revenues while also striving to minimize client and asset outflows during the migration process. Moreover, the completion of the client account migration work will allow us to realize cost synergies and further invest in digital capabilities improving the client experience and efficiency of our platform.

By 2026 we intend to fully capitalize on growth opportunities with no distractions. Our Swiss business will be uniquely positioned to offer exceptional value throughout the client lifecycle by delivering a comprehensive suite of services spanning wealth management asset management and investment banking.

Our primary focus will be on reinforcing our standing as the go-to bank for large corporates entrepreneurs and emerging affluent clients with leading financing asset servicing and wealth advice capabilities. This positioning coupled with a more streamlined cost base give us confidence in our ability to grow the P&C business at least as fast as Swiss GDP while delivering a cost income ratio of less than 50% and a pre-tax return on equity of near 20% by the end of 2026.

I now turn to asset management on Slide 29. Our strategic positioning expanded product offering and enhanced regional scale and select markets are already supporting healthy momentum in asset management. Despite the impact of the integration we saw $45 billion in net new money enter our platform in 2024 while we remain focused on continuing to capture opportunities where we have a differentiated and scalable offering. This includes our recently launched unified global alternatives unit which with nearly $300 billion in invested assets makes us a leading global player and top five limited partner.

By combining our leading manager selection franchises across GWM and asset management, we can now offer our wealth management and institutional clients' access to exclusive investment opportunities while providing GPs with a single point of access to the full distribution power of UBS. Overall with a focus on alternatives improve traditional investment performance and customize client solutions at scale, we continue to expect positive net new money growth in 2025 while completing our fund shelf transition and platform consolidation.

At the same time, we're investing in our existing platform to build out key capabilities create cost efficiencies and support our AI strategy. We'll also remain focused on realizing cost synergies from the integration and driving structural operational efficiencies from our strategic cost program. Together with further exits of non-strategic businesses these efforts are expected to improve our profit margin and asset management to above 30% by the end of 2026.

Moving to the Investment Bank on Slide 30. Over the last 12 months we've generated more than $0.5 billion of incremental underlying revenue in global banking and delivered record performance in global markets including reaching record market share and cash equities. Looking forward with favorable market conditions the completion of the Credit Suisse integration and earlier investment starting to pay off, we aim to enhance our IBs returns in 2025.

In banking we remain encouraged by our pipeline in M&A and LCM and our improved position in the Americas which together are expected to support year-on-year revenue growth in 2025. I should note that while there continues to be broad-based positive sentiment around the market backdrop global fee pools in January were off by more than 20% year-on-year.

Additionally, despite greater market activity in equity capital markets productivity improvement visible in our own ECM business is more likely to yield meaningful revenue growth later in 2025 and into 2026 considering the timeline of our pipeline build. This said with market share in the Americas over two times pre-acquisition levels we remain confident in our ability to double banking revenues in 2026 compared to our 2022 baseline.

It's also worth highlighting that our Investment Bank will be the only major player in the U.S. and Europe implementing final Basel III regulations and in particular FRTB. Upholding our capital light business model despite this additional cost of capital the IB remains committed to achieve its pre-tax return on equity ambition of 15% through the cycle while continuing to consume no more than 25% of the group's risk-weighted assets.

Turning to non-core and legacy on Slide 31. The performance delivered by the non-core and legacy team in 2024 contributed to a significant acceleration in our de-risking, cost-saving and capital release plans. In particular, what we achieved during the last six quarters has fundamentally altered NCL's balance sheet and risk position entering 2025. With RWA from its credit, securitized products, equities and macro books reduced by over 70%.

In addition, now being much smaller and yielding less net carry, these books are broadly hedged against market moves thereby effectively mitigating risks but also limiting revenue upside. Additionally, a significant portion of the funding costs associated with the overall portfolio relates to long-dated hold go and op go debt that Credit Suisse issued during its crisis. These instruments are prohibitively expensive to redeem prior to maturity making them a sticky component of NCL's costs irrespective of funding needs.

As a result, for full year 2025 we estimate NCL's top line at around negative $500 million mainly from funding costs with revenues from remaining fair value positions and continued exits expected around zero. Excluded from this estimate is a gain of around $100 million expected in the first quarter from closing the sale of Credit Suisse's U.S. mortgage servicing company that we announced last year.

We also anticipate NCL's underlying operating expenses ex-litigation to continue to reduce over the course of 2025 averaging around $450 million per quarter. Accordingly, in 2025 NCL's underlying pre-tax loss excluding litigation is expected to be around $2.2 billion albeit with sequential improvements as expenses and consumption based funding costs decrease.

This compares to an underlying pre-tax loss in 2024 of around $800 million, inclusive of litigation releases. 2024's performance benefited from net carry income and our exiting positions at prices above book value neither of which is expected to repeat at similar levels. Consequently, in 2025 NCL is expected to substantially weigh on returns year-over-year.

Looking further out we expect NCL to exit 2026 with less than 5% of group RWA consisting of less than $10 billion of market and credit risk. We also expect to exit 2026 with pre-tax loss of under $1 billion as the business continues its strong cost reduction trajectory. This is anticipated to consist of annualized operating expenses of around $750 million and annualized net funding costs of around $200 million.

We then intend to run down NCL's legacy operating expenses to a level below $250 million by the end of 2028 with funding costs tapering over an extended time frame as legacy Credit Suisse funding matures. By the end of 2028 we forecast around $100 million of legacy funding costs per annum fully running down by 2033.

Our outlook for the runoff of NCL's operational risk RWA for now remains in line with the trajectory we modeled under our internal method and disclosed previously. This reflects the fact that unlike what is expected to eventually apply in the U.S., UK, and across Europe the 2025 Swiss implementation of the standardized approach imposes an internal loss multiplier well above one. Thereby resulting in significant RWA primarily for losses and matters we inherited from Credit Suisse.

Picking up on my earlier comment, Slide 32 showcases our strong financial position at year-end 2024 and related regulatory measures. Our balance sheet for all seasons underpins our ability to consistently deliver for our clients and shareholders while we ourselves maintain resilience through disciplined risk management and strong capital and liquidity levels.

At the end of 2024 our group total loss absorbing capacity stood at $185 billion with a going concern capital ratio of 17.6% and as mentioned a CET1 capital ratio of 14.3%. We closed 2024 with AT1 capital of 3.3% of RWA. During the year we successfully issued $3.5 billion in AT1 as we build towards our ambition and regulatory allowance of 4.3% of RWA. Given our progress to-date and based on our projected 2025 funding needs, we expect our AT1 capital to remain at current levels through 2025 with new issuance offsetting potential calls.

Gone concern capital at year-end was $98 billion. As a reminder while this is around $40 billion above the group regulatory minimum our binding constraint is UBS AG's standalone requirement.

Looking ahead we're targeting to bring down group HoldCo to around $90 billion by the end of 2025 while still retaining resilient buffers over regulatory minimums. This target which is expected to contribute substantial savings and funding costs is based on the expectation that UBS AG's standalone requirements will decrease as a result of further balance sheet reductions and the reorganization of remaining former Credit Suisse operating companies.

UBS AG's standalone CET1 capital ratio at year-end is estimated to be 13.5%. For the foreseeable future we expect UBS AG to operate with a standalone CET1 capital ratio in the range of 12.5% to 13% around 2.5 points above the current regulatory minimum on a fully applied basis.

This guidance factors in the effects of our ongoing integration efforts and also considers the prospect of settling Credit Suisse legacy litigation matters that could result in charges to the parent bank despite coverage at the group level from PPA reserves established on the acquisition date. This target capital level also accounts for planned dividends and capital from subsidiaries.

During the fourth quarter, $13 billion of capital was repatriated to the parent bank from its subsidiaries in the U.K. and the U.S. Of the total, $6 billion was paid up from UBS Americas Holding. The U.K. subsidiary, Credit Suisse International repatriated $7 billion with around $5 billion of additional distributions expected as we continue to unwind or transfer its positions, subject to customary regulatory approval.

As Sergio mentioned, it's important to note that we planned for this distribution of capital from subsidiaries since the acquisition. As such, it forms part of our capital return ambitions while maintaining our target capital ratios at both the group level and the parent bank. Therefore, broadly speaking, new capital requirements from too big to fail imposed at the parent bank level would need to be funded by a higher retention of profits, consequently leading to an overshooting of capital at the group level and resulting in a lower overall return on CET1 capital, all other things being equal.

On to liquidity and funding. As we aim to balance efficiency with resiliency and safety over the past 18 months, we've been maintaining our LCR above pre-acquisition levels. This approach was necessary to facilitate the phase-in of the more stringent Swiss liquidity requirements, which has now been completed, and to sustain a conservative liquidity profile during the initial stages of our balance sheet stabilization and integration process. Going forward, we expect to operate with an LCR below our 4Q '24 level of 188%, reflecting continued efforts to manage towards a more efficient funding structure and reduced uncertainties associated with execution risk.

Overall, our current funding strategy focuses on enhancing the quality of our liability portfolios while delivering cost efficiencies. This involves the rightsizing of our AT1 and TLAC stacks, disciplined deposit pricing and active management of our liabilities across tenors and products to ensure a robust, diversified and resilient funding profile, coupled with significant balance sheet reductions achieved in 2024 and tighter spreads, these measures have already generated annual funding cost savings of $650 million with an additional $350 million expected by 2026.

Turning to Slide 33 on RWA and starting with an update on the implementation of the final Basel III reforms, which in Switzerland took effect on January 1. We intend to report a day one impact of around $1 billion of incremental RWA broadly neutral to our CET1 capital ratio, a result reflective of many months of intense diligent preparation. This amount of RWA includes increases related to FRTB of $9 billion, decreases from credit risk-related adjustments of $1 billion and a reduction in operational risk of $7 billion.

Looking at our expectations through 2026. Over the next two years, we expect our group RWA to increase by around 2% at constant FX from our January 1, 2025 pro forma levels. This reflects around $15 billion higher RWA from business growth in the core businesses, with the offset driven by the ongoing runoff in NCL.

Summing this up, we get to the same expected RWA level at the end of 2026 as we guided a year ago. However, with faster NCL reductions than foreseen, a lower-than-expected headwind from Basel III finalization and accelerated benefits from our balance sheet optimization efforts, we increased capacity to support additional RWA growth in our core businesses to drive incremental revenues.

In conclusion, we're pleased with the progress and achievement made in 2024. And as we move forward, we're confident in our ability to successfully deliver on our integration plans, meet our financial targets and drive long-term value creation for our shareholders.

With that, let's open up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question is from Chris Hallam from Goldman Sachs. Please go ahead.

Chris Hallam

Yes, good morning, everybody. So on integration, on the one hand, you run ahead of plan in 2024. Clearly, the RoCET1 has ended up much better than expected. But on the other hand, you're also guiding to around an extra $1 billion in cumulative integration cost by year-end '26 with an unchanged exit rate on returns.

So I guess, to what extent can we characterize this as essentially the easy part of the integration has now come to an end and now the hard work on decommissioning and data integration begins, i.e., have we seen -- have we sort of front-loaded the integration? Or is there still scope to outperform here over the next couple of years?

And then second, on capital, you have the caveat in the buyback target that this is on the basis of no material and immediate change in the current capital regime. What's your assessment of the likelihood that such changes could be both material and -- yes versus the potential for them being material, but with a long phase-in or smaller than expected, but with immediate applicability? And what is your best sense on when we might get final clarity and resolution on this topic. Sergio, I think you mentioned earlier that the public consultation begins in May. Thank you.

Sergio Ermotti

Let me pick up the second question, and then I'll pass it to Todd. So I think in terms of the caveating on our capital returns is quite consistent with previous language being -- staying at 14%, delivering on our financial plans, but also reducing the risk of the execution of the integration. So in that sense, I just want to remind that the massive migration of data we're going to go through in 2025 creates potential operational risk. So we have to be prudent about how we also look at share buybacks. I can say that I'm stay confident that we will be able to do that.

Now I have no more visibility than you have in respect of how things are going to develop other than what is publicly presented. I can continue to say that is for us, not appropriate to speculate on any outcome. And so we will engage until the last minutes to make sure that whatever proposal is put on the place is reflecting of the concerns and topics that I raised in my remarks.

Todd Tuckner

And Chris, on the first one, just to point out a few things that no, it's not -- the change is not reflective of what we consider to be more complex versus less complex. Important to note that when we developed this view a year back, this was seen as a very low multiplier when you look at $13 billion of cost to achieve versus the gross cost saves that we anticipated. And we're still, even with $14 billion at a very low multiplier. And so it should be seen in that light.

But it's also important to highlight that the changes were invited by certain assumptions we modeled a year ago or we saw changes which I highlighted in my comments earlier. But also importantly, we've identified incremental opportunities as we work through the integration to unlock additional shareholder value and that's taken some incremental cost to achieve that.

Chris Hallam

Okay. Thanks very much.

Operator

Next question is from Anke Reingen from RBC. Please go ahead.

Anke Reingen

Thank you for taking my questions. Two questions, please. On the first one, coming back to the too-big-to fail rules. I mean you stressed a few times the potential impact on your return currently -- your current assumptions based on '14. I know there's a lot of uncertainty, but do you think considering depending on the outcome, you will have room to offset your ROE dilution from more capital requirements?

And then thank you on the U.S. wealth management operation, a few details here. Just wondering, obviously, you talked about improving the performance of U.S. operations a few times before. So what's really different this time that this will work out? Thank you very much.

Sergio Ermotti

Thank you, Anke. Unfortunately, as I mentioned before, there is no easy fixes and there is no potential offset on the table that is not already planned and communicated. So no easy fixes, no low hanging fruits, whatever comes is on top of our plans, and it will be dilutive. Todd?

Todd Tuckner

Yes. Look, in terms of what's different, we wanted to highlight the things that we're doing now and demonstrate the initiatives we're undertaking and the plans that we have that will help us chip away. We're being realistic in terms of what we think the margins can be over the midterm, and we have a very comprehensive way at that. There is no silver bullet where there's one thing where you say that's going to effectively transform the pretax margin.

What I think you heard me say and Sergio alluded to in his opening is that we're very focused to execute across these various levers. We're implementing them all, and they're in the collective, we're going to contribute to improving the efficiency of the business. So I'd say that's our focus and that's where we're looking -- that's the outcome we're looking to drive.

Anke Reingen

Thank you.

Operator

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

Jeremy Sigee

Yes, morning. Thank you. Two questions, please. Firstly, just a sort of revenue in the quarter, the capital markets growth, so ECM and DCM was a bit less than some of the peer groups, 11% year-on-year. Just wondered if there's any mix reasons for that or if there's any sort of delay still in Credit Suisse teams becoming fully productive. So just a question on capital markets revenues.

And then second question, is on the foreign subsidiaries topic. It sounds like you've reduced the UBS Americas CET1 ratio to around 20% from the previous 27%. In the past, you run that anywhere from 14% to 22%. Is it realistic to think about going back into the mid-to high teens in that subsidiary on a say, five-year view?

Todd Tuckner

Jeremy, just on the second one. So we are targeting and as you acknowledge from the capital repatriation, the CET1 capital and the IHC has come down significantly. We are targeting a lower CET1 capital ratio, say, in the upper teens level. But on a like-for-like basis, under the Swiss standards, that's more in line with the 13% to 15% CET1 capital ratio. So that addresses that.

On the IB question. Just to point out, on DCM, clearly, we're underweight versus peers. So you're seeing that manifest in the -- in our performance in ECM, as I highlighted, we're building, but the timing of our pipeline build is likely to yield more payback later in 2025 into 2026.

Jeremy Sigee

Okay. Thank you.

Operator

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

Kian Abouhossein

Yes, thanks for taking my question. I really only have question regarding the key Slide 32. Sergio, I get the message, don't get over excited in terms of how capital would be repatriated and solved potentially a capital issue. But if I look at Slide 32, and I got very excited when I saw the $30 billion, but clearly, it hasn't ended up in the parent bank. It has been further upstream it looks like it.

And I'm just trying to understand the rationale of the upstream and also trying to understand if there is room to downstream again, if necessary. And in that context, we're also trying to understand how much more capital is there in CS international. It should be something like $5 billion to $6 billion from what I calculate, and if there's any other subsidiary that you would highlight was there's room for potential further upstreaming into the parent going forward. So really just trying to square the process. I'm a little bit confused in that sense. And if you could help me, I would really appreciate.

Sergio Ermotti

Thank you, Kian. I'm sorry. And I really appreciate your enthusiasm, and I'm sorry that you started with an enthusiasm and then you ended up being confused. So in that sense, I can only reiterate that we don't really have some so much low-hanging fruits here. There is no short fixes. There are technicalities that I think that Todd can explain you now but that's essentially the situation. So we have been quite coherent and consistent in saying and planning for capital well ahead of the curve when we started to plan for the 2026 targets.

Kian Abouhossein

Just to add, I'm a bank analyst, I can get excited very quickly. So...

Sergio Ermotti

Well, don't tell me.

Todd Tuckner

Kian, I think it's worth just pointing out that remember, we acquired Credit Suisse and the capital ratios at the parent bank were distressed relative to what UBS AG's fully applied capital ratio was and the strength and resilience of our capital on the UBS side, also to consider the equity double leverage that was there on the Credit Suisse side. And as we inherited that, the pressure it put on our own, just given what we had to address and pushing up that double leverage.

So taking out the capital and rebalancing the capital from former Credit Suisse subsidiaries in, say, the U.K. and the U.S. up to the parent and fundamentally at group level, as you say, has been part of the plan but also helps to alleviate the pressure in the equity double leverage. And I think that's an important point to mention. And that's why we made the comment that if there's going to be onerous capital imposed on the parent bank, it's going to be funded with the retention of future profits.

Kian Abouhossein

And just on double leverage, how much of the $13 billion do you actually require for double leverage? And how much do you allocate for payback to shareholders. So we just get an idea how much is potentially access in the holding, if there's any?

Todd Tuckner

It's -- look of that amount that we have repatriated. It's a significant part of it that is used to support moving to a more normalized equity double leverage level. A significant portion of it.

Kian Abouhossein

Okay. And just on the $6 billion in the CS International, roughly $5 billion to $6 billion, is that correct? That's what's remaining?

Todd Tuckner

Yes, I highlighted that in my comments as well that that's what we see. Naturally, it's a function of timing and ensuring that we continue to run down the positions in that entity, and get the support from the regulator to repatriate the remaining capital in that entity as we transfer our positions, as I mentioned, and there could be leakage between now and then if we have losses in the entities. So conservatively, I mentioned around $5 billion that would come from CSI from here.

Kian Abouhossein

Thank you.

Operator

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

Giulia Miotto

Yes, hi. Good morning. Thank you for taking my question. I have two. Going back to Slide 31 on the noncore deleveraging. How is it possible that -- if I exclude op risk, which I understand is driven by a formula, that's fine, but create a market risk, risk came down by $42 billion since Q2 '23. And now you only plan took up $7 billion in '25, why wouldn't we expect a faster deleveraging there, given that the market is still very supportive?

And then secondly, thanks for all the additional detail on the GWM in the U.S. On the NII discussion in that division, which I look forward to the disclosure in Q1. I guess having operating under a national charter rather than Yota would help. How quickly do you expect to get that license, please? Thank you.

Todd Tuckner

Giulia, so on the credit and market risk ambition in terms of the levels taking it down, I think this goes really to the point I highlighted in my comments in the context of the underlying PBT we see in '25 versus '24. I made comments that the positions at this point are much smaller than we've seen. They're hedged. At times, they could be -- could have transfer restrictions associated with them. We have to ensure the counterparty is willing to terminate. There could be exotic security types with bespoke features that limit potential buyers. So there are a lot of issues as you get down into the portfolio and you have much smaller positions in these books that's going to take an extensive amount of work to see chip away at progress.

So a lot of the big rocks and larger positions that generated significant RWA reduction, but also invited an ability to exit at levels above book value are going to become further and farther and less likely as we move forward. So I think it's just important to understand that in the context as well of the RWA rundown.

In terms of the -- to your second question on the national charter and the timing. Look, we're working on moving forward with getting the application in. It's a lot of work being done, and we're going to work as quickly as we can to get that rolled out and to enhance our banking product offering. I mean, we're not standing still at the moment. We're doing a lot of work in that respect now also to go live. But certainly, the -- having that license will unlock certain product capabilities that just aren't possible until we have it.

Giulia Miotto

Got it. But is it fair to expect, I don't know, three years longer, shorter?

Todd Tuckner

Giulia, I think that's just something we'll continue to update you on. I don't want to predict the process because we're working, obviously, also with supervisors to get that -- get the license approved. So the time line is something we're working actively on, but we'll keep you updated.

Giulia Miotto

Understood. Thank you.

Sergio Ermotti

And maybe just to add on, on non-core, we always say that at the end of the day, of course, if we really want to take down market and credit risk overnight, we broadly find the price at which to do it. But now if that price is well in excess of our cost of capital and expected return, that would be a stupid trade. So we are constantly looking to optimize shareholder interest as we wind down this asset. So it doesn't really make sense to create new capital at a cost that is well above how we expect to deliver in terms of returns.

Giulia Miotto

Got it. Thank you.

Operator

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

Stefan Stalmann

Yes, good morning. Thank you very much for taking my questions. I wanted to ask about the U.S. wealth management plans, please. It looks like you're tilting away the business mix from the high end of the market towards more affluent and lower wealth brackets, which is pretty much the opposite of what you've been trying to achieve over the last 20 years, I would say. What has changed? Why are you coming to this different assessment of the relative attractiveness of different wealth brackets in the U.S.?

And the second question, I just wanted to make sure that I understood this correctly. The share buyback plans and aims that you outlined, they are not yet accrued and deducted from CET1 capital at the year end, isn’t it? Thank you very much.

Todd Tuckner

Yes, Stefan. Yes, with respect to the $2 billion that we aim to buyback based on the conditionality that Sergio described that is correct. On the U.S. wealth side, I think it's just important to point out that it's not a shift in strategy. What we said was we're looking to rebalance more into the high net worth and affluent client segments. And the reality there is that, one, we're quite overweighed in Ultra, which is, of course, our strength. But it's also important to point out that the return on assets in that segment versus as you move down client segments is, of course, lower. And so the profitability as you move down segments is higher.

And so what we're trying to do is rebalance so to stay, obviously, very -- to stay very penetrated in Ultra, but to increase our penetration in high net worth and affluent so to create a better balance in line -- more in line with the market a bit more in line, although, of course, we want to stay more overweight at the top end because as I said, that's our strength and our -- what we bring to the strength that we bring to the table. But it's just really important to emphasize that yes, that -- versus the market, you could see that as we have on Slide 26 that we're looking just to shift and rebalance more into high net worth and affluent where the profitability has improved. And the point is that it's a rebalancing as opposed to a strategy change.

Stefan Stalmann

Okay. May I just quickly follow up on the first part of the question? Is the $1 billion share buyback plan also not deducted from CET1 capital? Or is it?

Todd Tuckner

That's in.

Stefan Stalmann

That's in. Okay, thank you very much.

Operator

The next question is from Andrew Coombs from Citi. Please go ahead.

Andrew Coombs

Good morning. One follow-up on GWM Americas and then perhaps I can touch on P&C, NII. On the GWM Americas, you highlighted a couple of times how you are adjusting the FA incentives to align them better with your strategic goals around net new money by acquisition and NII growth. I don't know if you can just elaborate a bit more there on exactly what changes you are making? How do you think those changes compare to your U.S. peer group especially given your comment in the near term, it might lead some FA attrition and lower net new money? So that's the first question.

Second question on the P&C NII. It obviously has been one of your biggest headwinds. You're guiding to -- I think your exact words, we're a much more pronounced drop this year than last year, but you're still expecting it to plateau after the second quarter. So can I just ask what are your rate assumptions to the SMB rates? And I think you made a comment that it should plateau regardless of where the rate trajectory is there are perhaps you could elaborate on that? And then also what are your loan assumptions, given that your loan balance has shrunk by another couple of billion this quarter. Thank you.

Todd Tuckner

So first, on your first question with respect to the FA comp changes. I think the changes that I highlighted that align better with our strategy also are more aligned to what we believe or observe are the comp models at our competitors as well. We had certain features. We think that we're perhaps off market, and we are looking more to align with what our peers do.

But I think the more important point, though, is that in discussing this with many financial advisers and getting their take on these changes, it's clear that those who are very aligned with our strategy of bringing value to their clients and growing their books of business. And as I said, bringing more solutions to their clients from essentially across what we can offer, those FAs will benefit in this model, and they'll get paid more, and I think that's the key point.

My comment about FA attrition is just that those who may have benefited from features that we have eliminated may decide that they would be better off trading away and we have to cater for that prospect in our modeling. And so that's why I mentioned that. But it's important to keep in mind that the changes we're making are really not intended to reduce compensation but to increase it as long as it's being done in ways that are very aligned with our strategy. And I think that's the most important point.

On P&C net interest income, you had several questions. I mean in terms of rate assumptions, well, first of all, the current rates are at 50 basis points having come down 125 basis points over the last three quarters of 2024. There's an expectation if you look at implied forwards that the rate curve will approach near 0. So there is really a lack of deposit margin room for maneuver as we look out, which is why we think that the full year 2025 NII, especially if rates move down further, will be even more pronounced than the Q1 guidance.

I talked about plateauing once we inflect because if you look at the yield curve, it's actually quite flat, if not even inverted, but it's certainly flat. And as such, we don't see movements in it. So therefore, if it's effectively hitting a trough, I see it plateauing. And then I commented, which was your other question, if rates move, obviously, if they move up, it gives us a bit more deposit margin room for maneuver. If they move down into negative territory, that is also helpful because we can typically charge certain clients and also drive greater lending NIM as well.

As far as the expectation around loan balances, we have a stable outlook for lending in P&C, and also a stable outlook for deposits in P&C. So we're quite focused continuing to do balance sheet optimization, ensure that the pricing reflects the appropriate cost of risk and capital. And on the deposit side, we've been very thoughtful in how we have moved pricing down in relation to the central bank dropping rates in order to retain deposits where possible.

Andrew Coombs

Very helpful. Thank you very much.

Operator

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

Amit Goel

Thank you for the clarification on the capital. I've got just a couple of questions again on the U.S. business. So I guess, one, I was just -- I just wanted to understand a bit better as you get to the 15% PBT margin in '27, what is the kind of plan or thought process in terms of getting to kind of peer levels or 25%, 30% operating margin in the future. I don't know if you think peers are over earning. But what the step is there and is building out a more comprehensive banking offering and delivery model is part of that, but what cost is involved in that?

And then secondly, also, just curious, in terms of the PBT margin that you're targeting the 15% in '27, I think previously, you were talking about mid-teens in '26. So just to check, is that slightly later? Or is it the same basic expectation? Thank you.

Todd Tuckner

Yes. In terms of the expectations, we haven't really articulated that other than I've said in the past that expected mid-teens in the midterm. We talked about the business and Sergio and I have been doing this. So I don't think it's inconsistent. But we're talking over the next couple of years to continue to build, and we think by 2027, we'll be at that mid-teens level.

I mean as far as comparing to peers, I mean we don't -- this isn't a comparison to peers for us -- or sorry, narrowing. It's not about effectively catching peers, but it's more about narrowing the gap. That's what we've said consistently in order to improve the overall cost-to-income ratio for the business overall. And in the U.S. to put us in a position where we're contributing significantly more to the overall profitability of Global Wealth Management.

In terms of the banking capabilities and the other capabilities I talked about, those investments are catered for in my comments, I did say that we're making incremental technology investments and also investments in our capabilities. And in the collective, that's also being priced into our 2025 pretax margin expectation, but also as we guided looking out to 2027 as well.

Amit Goel

Can I just follow up just in terms of that investment in terms of points of operating margin, would that be kind of 2, 3 or 5 percentage points of operating margin that you're investing in those years? Or just to think about thereafter, how much could potentially drop out? Or how much is just ongoing investment?

Todd Tuckner

I'd just say the investments that we're making we already -- we've been investing in the business. So it's important to keep that in mind. But we are making now we're ensuring that the investments that we make in technology are done in a way where the payback is improved, as I mentioned, improved ROI. We are also funding incremental investments as I say, and that is captured in the pretax margin expectation for 2025 and as we grow it. So I wouldn't model it falling out. I mean this will be technology investments we're going to continue to make for the business to help it grow.

Amit Goel

Thank you.

Operator

The next question is from Antonio Reale from Bank of America. Please go ahead.

Antonio Reale

Good morning. It's Antonio from Bank of America. Two questions from me, please. Actually, two follow-ups really. One on capital, one on the P&C. So you've repatriated $13 billion capital at the parent company this quarter. And despite that, your CET1 ratio at the AG level was only up 20 bps or so Q-on-Q to 13.5%. Now could you please explain why that was the case? And maybe talk us through the moving parts. I'm sorry if it's a repetition, but I think it's important.

And the second question is, again, a follow-up on your Swiss business. You've talked about your NII guidance. Can you just remind us your sensitivity to rates and hedging structure in Switzerland? And more in general, what flexibility would you have to mitigate some of this trend on NII with the rest of the P&L. You've alluded to more cost synergies. So if you can share a little bit more about the moving parts of the P&L that would be super helpful. Thank you.

Todd Tuckner

So in terms of the mitigants a bit to the headwinds, we're definitely focusing on driving, as you saw in 4Q, continuing to drive where possible non-NII revenue growth, improve on recurring revenue in P&C and also on transaction revenues that will be a focus to partially offset the headwinds that we see in P&C.

I mean as far as abilities to effectively hedge or extend duration, I mean, that's just not when the rates are this low and with a flat yield curve, extending duration, for example, on non-maturing deposits doesn't offer much of an advantage at all. In fact, it could lock in funding costs and rather than allow us to benefit from future rate cuts, including if they go below 0 and also creates some mismatched risk -- mismatch risk as well. So if the rates are going to near 0, as I said, we have very limited room for maneuverability, and we just have to wait until we see some daylight in terms of changes in that yield curve.

On the capital question you had in terms of what you're missing. I think in terms of the CET1 capital ratio at UBS AG after it received the capital from the subsidiaries, we are accruing a dividend to the parent to address the point that I made before in response to Kian's question. So it's a dividend accrual that will serve as an offset to the -- sorry, dividend accrual to group. To be clear, to offset the capital repatriated to AG, its first tier subsidiary.

Antonio Reale

Thank you very much.

Operator

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

Piers Brown

Yes, good morning, everybody. I've just got two follow-ups. One, I just wanted to make sure I got the message correct on client risk appetite. I mean you've talked about the move into sweep accounts and obviously the fourth quarter NII was much better than we anticipated. But then on the transaction side, you're a little bit below Street expectations. And if I look at the loan number, that's still declining. So just appetite for releveraging and sort of look forward on client activity into the first quarter, can you comment on that, please?

And then just a technical question maybe on the Basel III final outcome. I mean that's -- it's basically no change to CET1, I think you had guided to a 30 basis points impact originally. So what's moved in your favor on implementation of Basel III final that's caused that delta? Thanks.

Todd Tuckner

Hi, Piers. So on -- I'll just take your second question first. So in terms of the Basel III, look, I guided down last quarter to a lower level than I had been guiding as we started to get more visibility and make progress. The team has done an excellent job at ensuring that we were able to mitigate where we can, and some of the aspects that were at work are infrastructure improvements, model alignments, also exiting positions and running down risks. So all of those things contributed to our ability to be able to ultimately print a day 1 level that's far inside where we had guided.

In terms of releveraging opportunities, for sure, in Global Wealth Management with rates potentially higher are not going -- coming down as quickly as perhaps we anticipated a quarter ago or certainly 2 quarters ago, that's going to be helpful. That's going to be helpful for deposit margins, as I mentioned, but probably will have a little bit of a chilling effect on releveraging, which is something that with rates coming down, we expect to see both in all parts of the wealth business, which involves really where we have U.S. dollar exposure in the U.S. business naturally but also in our APAC part of the business. And so we -- if rates sort of back up, then we'll have positive effects on deposit margins, but the extent of releveraging that we're pricing into the outlook, we may see that come in less aggressively.

Piers Brown

That's perfect. Just on Global Banking, you mentioned a 20% change in pipeline. Was that up or down? I didn't catch that.

Sergio Ermotti

What we mentioned is not our pipeline. What we said is that according to market data, so the industry is down 26% year-to-date -- so for the first month. So our pipeline is building up. We are very confident about the ability to generate new business and build up our market share. But if you look at according to market data, January on January, the amount of fees and activities down 26%, if I remember correctly.

Todd Tuckner

Yes, it came in. The final number came in. Yes, sorry, Piers, got your question. It's the fee pool is down around 21% for January.

Sergio Ermotti

So in any case, a 2 handle in front. That's industry and not UBS, just to be clear. Okay. So there are no more questions. There are no more questions. So thank you for calling in and for your questions. So we'll touch base next quarter. Thank you.

Operator

Ladies and gentlemen, the webcast and Q&A session for analysts and investors is over. You may disconnect your lines. We will now take a short break and continue with media Q&A session at 11:30 CET. Thank you.

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