UBS

Second quarter 2024 results

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Speeches by Sergio P. Ermotti, Group Chief Executive Officer, and Todd Tuckner, Group Chief Financial Officer

Including analyst Q&A session

Transcript.
Numbers for slides refer to the second quarter 2024 results presentation. Materials and a webcast replay are available at www.ubs.com/investors

Sergio P. Ermotti

Slide 3 – Key messages

Thank you, Sarah and good morning, everyone.

It has been a little over a year since the closing of the acquisition. We made significant progress and UBS continues to deliver on all of its commitments to stakeholders.

Putting the needs of clients first during a challenging market environment has allowed us to maintain solid momentum while we fulfill our objective of completing the integration by the end of 2026. As a consequence, not only we have dramatically reduced the execution risk of the integration, we are also well positioned to meet all of our financial targets - and return to the level of profitability UBS delivered before being asked to step in and stabilize Credit Suisse.

I am particularly proud to note that across the combined organization our people are embracing the pillars, principles and behaviors that drive UBS's culture. These include client centricity and collaboration and enable us to successfully manage risk and act with accountability and integrity.

I'd like to thank all my colleagues around the world for their dedication and hard work.

Our second-quarter results contributed to a strong first-half performance, reflecting the strength of our client franchises and disciplined implementation of our strategy and integration plans. Reported net profit for the first half was 2.9 billion, with underlying PBT of 4.7 billion and an underlying return on CET1 capital of 9.2%.

We strengthened our capital position and maintained a balance sheet for all seasons, with a CET1 capital ratio of 14.9% and total loss-absorbing capacity of around 200 billion. Our parent bank is well capitalized, even after withstanding the removal of significant regulatory concessions previously granted to Credit Suisse. As a result, we are executing on our 2024 capital return plans and, as I mentioned last quarter, we are committed to delivering on our mid-to-long term ambitions for dividends and buybacks.

Turning to the integration, we have captured nearly half of our targeted gross cost savings as we restructure our core businesses and wind down Non-core and Legacy, where we have materially reduced risk-weighted assets over the last twelve months.

As part of our de-risking efforts, we have also made good progress addressing Credit Suisse's legacy legal issues, including the Supply Chain Finance Funds and Mozambique matters.

Following these intense months of execution, during which we obtained more than 180 approvals from roughly 80 regulators in more than 40 jurisdictions, we completed the mergers of our parent and Swiss banks, and transitioned to a single U.S. intermediate holding company.

This clears the way for the next set of critical milestones that will support the realization of further integration synergies.

But let me reiterate something you've heard me say before: We still have a lot of work ahead of us to address Credit Suisse's structural lack of sustainable profitability.

While we are encouraged by the significant progress we have made across the Group, the path to restoring profitability to the pre-acquisition levels won't be linear.

We are now entering the next phase of our integration which will be key to realizing the further substantial cost, capital, funding and tax benefits necessary to deliver on our 2026 financial targets.

We are following through on our plans amid heightened uncertainties in the markets. These are the moments in which UBS proves its strength, resilience and superior ability to serve and advise clients.

This is reflected in the trust that our clients have placed in us every quarter since the close, with a total of 127 billion in net new assets.

We've also remained focused on our strategic objectives to enhance our client offering and leverage the breadth, scale and synergies of our combined franchises.

In the Investment Bank, I am pleased by the client response to the strategic additions we have made to reinforce our capabilities and competitive position.

The first-half performance is a positive signal that the investments are paying off. In Global Markets we saw the highest second quarter on record. And in Global Banking we have captured sizeable market share gains. Importantly, we achieved these results without compromising on our risk and capital discipline.

We are also increasing collaboration across the firm as GWM clients continue to benefit from our IB products and capabilities. This drove the majority of wealth management's expansion of client activity this year, particularly in the Americas and APAC.

Another example is our newly created Unified Global Alternatives unit which combines our Alternatives investment capabilities across GWM and Asset Management.

In fact, this is not just an internal cooperation. We are reshaping the competitive landscape by effectively creating a top-5 global player and Limited Partner with 250 billion in invested assets across hedge funds, private equity, private credit, infrastructure and real estate.

Unified Global Alternatives will offer our institutional, wholesale, wealth management clients a more comprehensive offering and enhanced access to exclusive co-investment opportunities. It will also provide General Partners with a single point of access to the full distribution power of our firm.

In Asset Management, we are offsetting margin compression by increasing operational efficiency, which is one of the key focus areas for the business.

In Switzerland, we continue to enjoy the trust of our clients, despite a very competitive and, at times, less-than-constructive environment.

With around 30 billion Swiss francs in net new deposits in the last 13 months and approximately 350 billion of loans extended to clients, we continue to maintain our role as an important engine of credit.

Since the acquisition we granted or renewed around 85 billion Swiss francs of loans.

Higher interest rates, the cost of increased regulatory, capital and liquidity requirements, a changing macroeconomic outlook, and, last but not least, the necessity to reprice some loans granted by Credit Suisse at unacceptable risk-returns are having an impact on pricing of new credit.

Of course, those are not always easy discussions to have with clients, but we are constructively engaging with them, and I believe the vast majority understand the rationale.

Switzerland is a key pillar of our strategy and we are fully committed to maintaining our leadership. Swiss clients and the economy benefit from UBS's unparalleled, competitive global reach and capabilities. In turn, our Swissness is a unique differentiator when serving clients around the world.

As a testament of this symbiosis, we were recognized by Euromoney as Switzerland's Best Bank for the tenth time since 2012 and the world's best bank.

As we continue our integration journey in the Swiss business, we believe it will be important to further communicate with all our stakeholders about our approach and strategy. To that end, in September, our head of Switzerland, Sabine Keller-Busse, will present at our flagship Best of Switzerland conference, which brings together investors and corporate clients.

Looking ahead and more broadly, ongoing geopolitical tensions and anticipation ahead of U.S. elections will likely result in heightened market volatility compared to the first half of the year.

In this environment we have two key priorities: First, we must continue to help clients manage the challenges and opportunities that arise.

Second, we must stay focused and not allow short-term market dynamics to distract us from achieving our ultimate goal, which is to continue to execute on the integration and invest strategically to position UBS for long-term value creation.

The management appointments we announced in the second quarter will enable us to continue to progress on this journey. At the same time, we can put even more emphasis on our priorities and prospects for sustainable growth, particularly in the Americas and Asia-Pacific.

We are confident this will also help us to deliver better outcomes for our clients and the communities where we live and work.

With that, I hand over to Todd.

Todd Tuckner

Slide 5 – Sustained revenue momentum with steady progress on cost reduction

Thank you Sergio, and good morning everyone.

In the second quarter, we delivered strong underlying profitability, and we made further progress in reducing costs and optimizing our balance sheet.

Net profit in the quarter was 1.1 billion. Our EPS was 34 cents and our underlying return on CET1 capital was 8.4%.

Throughout my remarks today, I refer to underlying performance in US dollars and make comparisons to our performance in the first quarter, unless stated otherwise. From the third quarter onwards, we'll revert to making year-on-year comparisons as, by then, the prior year period will fully capture combined performance post the Credit Suisse acquisition.

Slide 6 – 1.1bn net profit with strong underlying profitability

Turning to slide 6. Total revenues for the quarter reached 11.1 billion with top-line performance in our core businesses holding up nicely from a strong first quarter, down 2% sequentially.

Net interest income headwinds were partially offset by higher recurring fee income in our wealth and Swiss businesses, and by improving activity in IB capital markets.

Revenues in our Non-core and Legacy business were positive in the quarter, albeit 0.6 billion lower versus an exceptional first quarter.

On a reported basis, revenues reached 11.9 billion and included 0.8 billion of mainly purchase price allocation adjustments in our core businesses, with an additional 0.6 billion expected in the third quarter.

Underlying operating expenses in the quarter were 9 billion, decreasing by 3%. Excluding litigation and variable and Financial Advisor compensation tied to production, expenses were also down 3% as we further progressed our cost-cutting and workforce-management initiatives despite the intense integration agenda.

At the end of the second quarter, there were about 35 hundred fewer total staff compared to the end of the first quarter, and 23 thousand, or 15%, fewer since the end of 2022.

Integration-related expenses in the quarter were 1.4 billion, resulting in reported operating expenses of 10.3 billion.

Credit loss expense was 95 million, driven by a small number of positions in our Swiss corporate loan book.

Our tax expense in the quarter was 293 million, representing an effective rate of 20%, helped by NCL's performance and the initial positive effects of completed legal entity mergers.

In the second half of 2024, excluding the effects of any DTA re-valuation, we expect the effective tax rate to be around 35%, mainly as expected pre-tax losses in legacy Credit Suisse entities can't be fully offset against profits elsewhere in the Group. The tax rate could benefit if NCL continues to perform better-than-expected.

We continue to expect the ongoing optimization of our legal entity structure to gradually support a return to a normalized tax rate of around 23% by 2026.

Slide 7 – Ongoing progress on gross and net cost saves

Turning to our quarterly cost update on slide 7.

Exiting the second quarter, we achieved an additional 900 million in gross cost saves when compared to three months earlier, bringing the cumulative total since the end of 2022 to 6 billion, or around 45% of our total gross cost save ambition.

We estimate that around half of this quarter's saves benefit our underlying opex with the other half reinvested as planned in our technology estate as well as to offset increases in variable and Financial Advisor compensation tied to production.

To date we've generated around 4 billion of net saves, primarily driven by NCL, which has shed around 3 and a half billion of its 2022 cost baseline.

Following the legal entity mergers, we now turn our focus to the critical client account and platform migration work planned for our core businesses. We start in the fourth quarter with GWM's booking hubs in Hong Kong, Singapore, and Luxembourg, followed thereafter by client account transitions in our Swiss booking center, which supports both GWM and P&C.

Along with our ongoing cost run-down efforts in Non-core and Legacy, these initiatives represent the most material drivers of future cost savings as we decommission technology systems, hardware and data centers, while also unlocking further staff capacity.

As I highlighted last quarter, the pace of saves is expected to moderately decelerate from the quarterly run rates observed over the last several quarters while we prepare for, and initially undertake, these significant integration activities. We expect to pick-up the pace as we implement these transitions throughout 2025 and into 2026, particularly benefiting the cost/income ratios of GWM and P&C.

The rate at which we are incurring integration-related expenses, which front-run underlying opex saves, is also indicative of the headway we're making on costs. In the second half, we expect to book 2.3 billion of integration-related expenses, of which 1.1 billion in the third quarter. By the end of this year, we expect to have incurred around 70% of total costs to achieve our 2026 exit rate efficiency targets.

Slide 8 – Maintaining a balance sheet for all seasons

Moving to our balance sheet. In the second quarter we reduced risk-weighted assets by a further 15 billion, of which 8 billion from the active run-down of positions in our Non-core and Legacy portfolio, which I will come back to shortly.

Over 8 billion of the decline was seen across the core business divisions, mainly resulting from the financial resource optimization work in GWM and P&C. As I highlighted earlier in the year, this work is addressing sub-hurdle returns on capital deployed, including by reducing deposit and loan volumes. The upshot is additional capacity to absorb headwinds from regulatory and risk methodology changes, model harmonization between the two banks, and the implementation of Basel 3 Final, now confirmed for January 2025.

While we continue active dialogue with our supervisor on various aspects of the final rules, at present we continue to expect the Day 1 impact of Basel 3 Final to be around 5% of RWA, driven mainly by FRTB. We'll update our estimates by no later than the fourth quarter as requirements firm.

Our leverage ratio denominator decreased by 35 billion in the quarter. This reduction was driven by several factors, including full repayment of the central bank ELA facility granted to Credit Suisse, lower lending volumes, mainly from our financial resource optimization efforts, and the active run-down of our NCL portfolio.

We ended the second quarter with an LCR of 212%, reflecting the ELA repayment, and TLAC of 198 billion.

Slide 9 – Strong capital position at group and parent bank level

Turning to slide 9. Our CET1 capital ratio as of quarter-end was 14.9%.

The numerator reflects accruals of this year's expected dividend and a reserve for 2024 share repurchases, of which we have executed 467 million of the planned 1 billion, as of last Friday. Additionally, our CET1 capital includes all relevant portions of the purchase price allocation adjustments made to Credit Suisse's equity as of the acquisition date last June.

With the 12-month measurement period now concluded, total PPA adjustments against the purchased equity of Credit Suisse amounted to negative 26.5 billion, of which about 70% reduced CET1 capital.

Following completion of the parent bank merger earlier in the quarter, next week we'll report UBS AG's consolidated and standalone capital ratios and other information for the first time on a combined basis.

UBS AG's standalone CET1 capital ratio at quarter-end is expected at 13.5% on a fully applied basis.

To put this capital ratio in perspective, it's important to compare the way we manage our parent bank capital versus Credit Suisse's pre-acquisition practices. We provide for the complete transition of the risk-weight rule changes applicable to UBS AG's subsidiary investments, which overall are valued prudently. Moreover, we don't depend on any affiliate valuation concession from the regulator. This was not the case with Credit Suisse before the take-over, where its approach overstated the parent bank's resilience, and ultimately limited restructuring optionality.

In this context, our merged parent bank already provides for around 20 billion of additional capital resulting from the acquisition, including the progressive add-ons from growth in balance sheet and market share that will be phased-in over five years starting in 2026. The result is a parent bank capital buffer of around 100 basis points above the current fully-applied requirement by 2030.

Slide 10 – Global Wealth Management

Moving to our business divisions, and starting with Global Wealth Management on slide 10.

GWM's pre-tax profit was 1.2 billion on revenues of 5.8 billion, which were up 3% year-over-year on an estimated, combined basis.

Against a complex economic backdrop, clients sought our differentiated advice and solutions as evidenced by continued strong momentum in net new asset inflows and transactional activity.

Overall, we generated 27 billion of net new assets, a growth rate of 2.7%, with positive inflows across all regions. I'm particularly pleased with this result considering the variety of headwinds to net new asset growth that the business successfully navigated in the quarter, including around 6 billion in seasonal tax outflows in the US. Let me unpack this further.

To date, we've retained the vast majority of Credit Suisse's invested assets notwithstanding that more than 40% of Credit Suisse's wealth advisors have left since October 2022. I would also note that these relationship managers advised on only 20% of assets, meaning that, overall, we've retained the more productive Credit Suisse advisors, a testament to the appeal of our platform.

We've also kept around 80% of the first large wave of maturing fixed term deposits from last year's win-back campaign, with the peak in maturities expected in the third quarter.

Furthermore, we made strong progress this quarter in our efforts to increase profitability on sub-hurdle relationships. Higher returns come from both driving increased platform revenue and proactively exiting sub-par loans, with these actions in the quarter boosting the revenue over RWA margin by around 30 basis points sequentially.

Lastly, from a macro standpoint, the equity capital markets, and in particular IPO activity, ordinarily a significant driver of wealth creation and net new asset generation, have only recently started to recover.

These dynamics underscore the basis of our short-term annual guidance of 100 billion for 2024 and 2025 and, equally, the resilience of our net new asset achievement in the quarter as well as the high level of client conviction in our advice and solutions.

Now, onto details of GWM's financial performance.

Revenues declined 2% sequentially, as lower NII and the expected sequential drop in transactional activity, were partially offset by growth in recurring net fee income, supported by higher average levels of fee generating assets.

Net interest income decreased by 2% sequentially to 1.6 billion, driven by ongoing deposit mix shifts and declining loan volumes, partially offset by our repricing actions, which as mentioned support higher returns on capital and net interest margin.

Looking towards year-end, we maintain our previous guidance that full year 2024 NII will be roughly flat versus 4Q23 annualized. This includes a low-to-mid single digit percentage sequential drop in the third quarter, driven by a decrease in volumes, mix shifts in anticipation of falling rates, and the impact on our replication portfolios.

In arriving at this outlook, and in light of recent rates volatility, we're modeling 100 basis points of US dollar policy rate reductions by the end of 2024.

The outlook for net interest income in our US wealth business is expected to be influenced by competitive dynamics affecting the pricing of sweep deposits. By the middle of 4Q24, we intend to adjust the sweep deposit rates in our US advisory accounts, which, net of offsetting factors, are expected to reduce pre-tax profits by around 50 million annually.

Looking across our wealth business beyond year-end, we expect an inflection point in GWM net interest income around the time implied forwards reach a structural floor and stabilize, and clients begin to re-leverage, driving loan balances and NII higher.

Moreover, it's essential to consider that GWM's diversified and CIO-driven fee-generating business model has proven both its appeal to clients and ability to drive profitable growth, even during past periods of low or negative interest rates. Consequently, in addition to increased lending, it's reasonable to expect that lower interest rates will spur increased transactional activity, mandate sales and investments in alternatives across our wealth business.

Recurring net fee income increased by 3% to 3.1 billion from higher client balances. Net sales in our UBS managed account offerings showed continued momentum, contributing to a sequentially higher recurring net fee margin in the quarter.

Transaction-based revenues decreased quarter-on-quarter to 1.1 billion, but notably increased around 14% year-on-year on an estimated, combined basis, with APAC up around 30% and the Americas up over 20%, and broadly flat sequentially versus a strong first quarter. Both regions performed exceptionally well in structured products as clients sought customized investment opportunities in an environment of low volatility, high interest rates, and continued global tech appeal.

I would also highlight that our investments in combining GWM and IB markets and solutions capabilities in the Americas are paying off as evidenced by our transactional revenue performance over the first half of the year, up around 20% versus the same period in 2023.

Expenses were roughly flat quarter-on-quarter. Excluding compensation-related effects, underlying operating expenses dropped 2% sequentially. As highlighted earlier, the upcoming client account migration work is expected to be a significant driver of cost reductions in GWM throughout 2025 and into 2026.

Slide 11 – Personal & Corporate Banking (CHF)

Turning to Personal and Corporate Banking on slide 11. P&C delivered a second quarter pre-tax profit of 645 million Swiss francs.

Revenues were down 4% sequentially, driven by an 8% decline in net interest income that was partly offset with increases in recurring net fees and transaction-based revenues.

P&C's NII in the quarter was primarily affected by higher liquidity costs and the SNB's 25 basis point interest rate cut from March, as we kept our Swiss clients' deposit pricing unchanged.

In the third quarter, we expect NII to tick down sequentially by a low single digit percentage, mainly due to the effects of the SNB's second 25 basis-point rate cut from late June. In US dollar terms, we expect NII to be roughly flat sequentially.

Despite these effects, as well as higher costs related to the SNB's move earlier in the quarter to raise minimum reserve requirements, we nevertheless reaffirm our full-year 2024 guidance of a mid-to-high single digit percentage decline versus 4Q23 annualized, supported by our balance sheet actions. In arriving at this outlook, we are currently pricing-in up to two further Swiss franc policy rate reductions of 25 basis points each by the end of 2024.

Assuming Swiss franc interest rates stabilize next year, as the forward rate curve presently implies, we expect shortly thereafter to see steadying volumes and an inflection point in P&C's net interest income.

We also expect by then that our balance sheet optimization work will be largely complete, with loan pricing reflecting a more appropriate cost of risk across the Swiss credit book. These efforts are necessary to restore returns on capital deployed and net interest margin in our Swiss business to pre-acquisition levels.

In this respect, we saw net new lending outflows of 3.4 billion Swiss francs this quarter, driven by repricing of sub-hurdle volumes, despite having renewed or granted new loans to our Swiss clients of around 30 billion Swiss francs in 2Q.

Transaction-based revenues were up 2% mainly from higher credit card usage. Recurring net fee income gained 3% on higher custody assets. Together, these non-NII revenue lines, up 2%, demonstrate the business's effectiveness in staying close to clients and minimizing merger dis-synergies.

Credit loss expense was 92 million, driven by a small number of positions in our corporate loan book, as I mentioned earlier. Even with the increased focus on risk-based pricing for maturing loan positions, our Swiss credit portfolio remains of very high quality, with an impaired loan ratio of 1.1%, down sequentially, albeit up versus pre-Credit Suisse acquisition levels.

For the foreseeable future, we expect CLE to remain at broadly similar levels given increased book-size post merger, the relative strength of the Swiss franc and some economic softness in the main Swiss export markets.

Operating expenses were flat sequentially. Similar to GWM, future cost reductions in P&C will be closely tied to the client account and platform migration work for Booking Center Switzerland, planned to commence by the second quarter of 2025.

Slide 12 – Asset Management

On slide 12, pre-tax profit in Asset Management increased 26% to 228 million.

This quarter's result included a gain of 28 million from the initial portion of the sale of our Brazilian real estate fund management business. In the third quarter, we expect to record an additional 60 million in underlying pre-tax profit on gains from disposals, mainly from closing the residual portions of this transaction.

Net new money was negative 12 billion, with continued client demand for our SMA offering in the US and positive contribution from our China JVs, only partly compensating outflows across asset classes, particularly equities.

While integration efforts to consolidate platforms may constrain AM's net new money performance over the next few quarters, we expect our enhanced global reach and increased scale in alternatives and indexing to at least partially offset these headwinds.

Net management fees dropped 5% as outflows in select active products weighed on margins. Performance fees were roughly stable in the quarter.

During 2Q, AM made strong progress in improving operational efficiency, a key focus area I highlighted during the investor update earlier this year. Operating expenses were 9% lower sequentially on reductions across both non-personnel and personnel costs, partially supported by lower variable compensation. Some of the sequential decline in variable comp is expected to normalize in the third quarter.

Slide 13 – Investment Bank

On to our Investment Bank's performance on slide 13, which, as in prior quarters, I compare on a year-over-year basis.

The IB delivered a strong second quarter result with improving capital markets activity supporting an excellent Banking quarter. Our Markets businesses performed well in an environment reflecting mixed market trends, in particular low volatility in equities, rates and FX, as well as lower cash equity volumes in APAC, where we're overweight.

Operating profit was 412 million, up from an operating loss of 14 million a year earlier, and up 2% sequentially, as the investment banking backdrop continues to improve. Investments to deepen our US presence are having a positive impact on revenues, as are contributions of Credit Suisse talent across key sectors of Banking and Markets.

Underlying revenues grew by 26% to 2.5 billion with nearly two thirds of the increase coming from the Americas. I would highlight that our revenue growth was achieved with broadly similar levels of RWA, as the IB continues to manage within the Group RWA limit of 25%, excluding NCL.

Banking revenues were up 55% as we outperformed global fee pools, both in capital markets and advisory. Since the end of 2023, we have gained over a percentage point in market share in each of our strategic banking initiatives, including M&A and sponsors in the Americas. Regionally, APAC saw revenues nearly double, while the US was up 83%. EMEA declined by 3% against a very strong prior period.

Capital Markets revenues were up 82% year-over-year with an outstanding LCM performance reflecting an increase in refinancing activity, mainly in the US. Advisory revenues increased by 23% as we leveraged our strong position in APAC to benefit from increased activity and performed well in the Americas.

The strength of our fully integrated coverage teams is visible in our ability to win new mandates, where we rank 7th globally in announced M&A volumes, making for an encouraging deal pipeline. While we expect to continue capturing market share, macro and geopolitical factors are likely to weigh on continued sequential Banking revenue growth in the near term.

Revenues in Markets reached 1.8 billion, the best second quarter result in over a decade, up 18% year-on-year and driven by the Americas, up nearly 40%.

Equities revenues were up 17%, driven by both Derivatives and Cash, where we have seen material gains in market share.

FRC was up 20% with broad increases across FX, credit and rates, benefitting from higher client activity, particularly in FX and rates options, partially offset by lower activity and spread compression that affected our rates flow business.

Operating expenses rose 12%, predominantly reflecting higher variable compensation linked to improved performance.

Slide 14 – Non-core and Legacy

Moving to Slide 14.

Non-core and Legacy's pre-tax loss in the quarter was 80 million, supported by around 400 million in revenues, principally from gains on position exits across corporate credit and securitized products, and further reductions in the NCL cost base.

Underlying opex was down 37% sequentially, helped by releases in litigation reserves of 172 million. Excluding litigation, operating expenses declined by 17%, as we made strong progress driving down personnel costs and third party spend.

NCL's six-month pre-tax profit of 117 million, which far exceeds earlier loss expectations, demonstrates the business's skillful management in de-risking its portfolios and rapidly cutting its costs.

For the second half of the year, we expect an underlying pre-tax loss of around 1 billion, reflecting moderate short-term upside to revenues, and continued sequential progress on cost reduction, albeit at a slower rate than observed over recent quarters.

Slide 15 – Strong progress on cost and balance sheet reductions in Non-core and Legacy

Moving to slide 15.

Over the last four quarters, NCL has made impressive progress running down its costs across all lines, cutting its underlying operating expense base by over 2 billion, or around 50%.

NCL has also excelled in running down its balance sheet positions, significantly contributing to Group capital efficiency, releasing 5 billion in capital as a result of its efforts. Additionally, NCL has cut its non-operational risk-weighted assets by almost 60% over the last year, including by another 8 billion this quarter, mainly from actively exiting positions across its portfolios, notably in investment grade and high-yield corporate credit, securitized products, and macro.

Similarly, NCL's LRD is down by over 60% since 2Q23, dropping another 40 billion of leverage exposure this quarter, reflecting lower notionals as well as lower levels of HQLA. In terms of book closures, NCL shuttered another 10% of its active books in the quarter, bringing the total since last June to around 45%.

Looking ahead, the progress we are making is visible in the natural roll-off profile, significantly narrowing the gap to our active run-down expectation of around 5% of Group RWA by 2026.

Further supporting this and as additional evidence of NCL's proficiency in de-risking its balance sheet and driving down costs, yesterday we agreed to sell Credit Suisse's US mortgage servicing business. This transaction is expected to close in 1Q25, and would reduce RWA by around 1.3 billion, LRD by around 1.7 billion, and annualized costs by around 250 million.

Slide 16 – We are positioning UBS for sustainable growth and long-term value creation

To summarize, the second quarter demonstrated the power, scale and secular growth potential of our franchise as we delivered strong underlying profitability and continued to make substantial progress across our integration agenda while reinforcing a balance sheet for all seasons.

With that, let's open for questions.

Analyst Q&A (CEO and CFO)

Giulia Miotto, Morgan Stanley

Hi. Good morning. Thank you for taking my questions. I'll ask two, please. So my first one, thank you very much for the guidance on NII in GWM which was something the market was looking forward to. Can I just ask a clarification? If you look at the current forward curve, when do you expect NII to bottom exactly? Do you think second half 2024 and then we can grow, or possibly first half of 2025? So that's the first question.

And then the second question is, instead, on the capital of the parent and in particular the CSI, it seems to have a lot of excess capital and upstreaming that could reduce the impact of – the potential impact from the proposal in Switzerland. Can we expect UBS to upstream some of that capital or how are you thinking about excess capital at subsidiaries? Thank you.

Todd Tuckner

So, regarding the NII guidance in terms of the implied forward curve. So as I mentioned, you know, we ended up pricing in, as you saw, and modeled for a 25 basis point rate cuts through the end of the year. If you look out in, in terms when the implied forward curve would suggest bottoming out, you know, we're probably pricing in more like 7 depending on what you're looking at.

So, you know, I mean, from here, while difficult to speculate, it could be sometime in mid-2025, but I spent time what I think is really important to recognize is that, you know, in a lower NII – lower interest rate environment, there are significant offsets and tailwinds in the business that we expect to see.

And that was a point that we wanted to really ensure is well understood because ultimately transaction revenues, re-leveraging and driving up NII from re-leveraging, and also recurring fees from mandate sales, you know, all have upside in an environment of lower interest rates. In terms of the parent bank capital, you mentioned our UK – Credit Suisse's UK subsidiary that has excess capital, of course, we're working on restructuring and on all of our subsidiaries where we can.

And ultimately, you know, we will as appropriate upstream the capital in any of the subsidiaries in order to alleviate the capital at the parent bank.

Giulia Miotto, Morgan Stanley

Thank you.

Andrew Coombs, Citi

Good morning. Let's just drill down to the areas where you've perhaps delivered ahead of expectations. So firstly, on the Non-core, another successful quarter of actively reducing the RWAs and some further gains on some of those division exits. You're now talking about narrowing that gap in the natural runoff. So based on the natural runoff you'll be at 6% and you're aiming for 5%.

So I think that is only another USD 5 billion inside of active RWA management in that business. And now you alluded to the close of the US mortgage servicing business will get you some way towards that. So, should we assume that active management within the NCL book is now largely complete or will be largely complete by the end of this year?

And then my second question is just on costs. Previously, I think you were expecting to be at 50% by end 2024. You're now 55% guiding by end of 2024 of the total cost saving target of next so USD 500 million of cost saves you realized earlier than expected. Which division is it that these cost are coming through earlier than expected? And in your mind, is it purely just a timing issue that coming through earlier as opposed to a quantum issue that you're delivering more cost savings than expected? Thank you.

Todd Tuckner

Yeah, thanks a lot, Andrew. On the second one in terms of on the costs and the performance and outperformance we're continuing to see. I mean, that's really driven, as I highlighted in my comments by NCL for sure, NCL is driven the lion's share of the gross cost saves to date while the other divisions have contributed, it has been really a function of their active rundown of positions, but also the restructuring of various parts of Credit Suisse as a G-SIB that we've highlighted in the past is an important part of taking out the costs. And a lot of those costs reside, you know, in NCL. So, they've been really the benefactor of the cost performance. And as we look out towards the end of the year, the additional progress that we anticipate, even though, as I suggest, we expect a bit a moderate deceleration in the gross cost saves, that's expected to be yielded also by NCL. And as I highlighted, you know, the core business divisions will then – the ratio of core to non-core or non-core to core in terms of cost takeout will invert as we get into the second half of the integration agenda and we'll start to see the significant cost reductions hitting through in particular GWM and P&C.

And just on the first, in terms of how we see the natural runoff and the success we've had in the quarter, you know, of course, we're not counting on, you know, extrapolating and we take economic decisions as they arise and the opportunities arise. And so, you know, difficult to extrapolate the great outcome that we've had to date to suggest a different outcome than the natural roll-off. And that's why we continue to disclose it.

So, you know, that becomes clear. What is important and Sergio commented this in his remarks that, you know, the uncertainty delta continues to narrow. And that's what you know, I think it's important that, you know, ultimately, while we can't count on anything in particular in terms of what can come off the balance sheet of NCL, in terms of extrapolation, what we can say is that the uncertainty delta has narrowed very significantly.

Andrew Coombs, Citigroup

That's clear. Thank you. I guess the follow on would just be your previous guidance was for a typical run rate of close to zero revenues from NCL per quarter and presuming that's unchanged?

Todd Tuckner

Yeah. As I said Andrew, that we see in the long-term, that's for sure the case in the short-term, i.e. the 2H guidance that I offered, we see some modest upside to current book values on the revenue side. So, some modest uptake in driving the billion underlying PBT loss guidance that I offered in my comments.

Andrew Coombs, Citigroup

Thank you.

Jeremy Sigee, BNP Paribas

Hi there. Thank you. Two questions, please. First one, just follows on from just exactly what you were talking about there, the guidance for the P&L drag from NCL. Obviously, it's going better than expected, which is great to see. What would we expect now – previously you were talking about USD 2 billion P&L drag exit rate in 2025 and then USD 1 billion exiting 2026. And obviously it's going much better than that with sort of a UBS 1 billion drag in the second half that you're integrating. What should we expect for 2025? And could the NCL drag be finished within 2025 rather than carrying on into 2026? Any update on that would be really helpful.

And then my second question, just a more sort of specific one on investment banking costs. They drifted up a little bit more than revenues in the second quarter, it's not a big move, but the cost income deteriorated against those strong revenues rather than perhaps you might have hoped it could have improved a little bit. So, any comments on the drivers, whether there's any one-offs in there or anything unusual, just how we should interpret that IB cost number, please

Todd Tuckner

So, Jeremy, thanks. On the second one in the comp on IB costs, it's the comp quarter, of course, only has Credit Suisse personnel in for a short period of time for just the one month when you look at the year-on-year comp, whereas the current quarters as you know the people we've added for the full quarters. So that's driving that that variance.

Jeremy Sigee, BNP Paribas

I'm sorry, speaking Q-on-Q, I think the costs are up 3% and the revenues are up 1%. So, I was thinking more Q-on-Q.

Todd Tuckner

On – yeah on Q-on-Q, it would be just some compensation-related effects that were hitting through driving the Q-on-Q. But I'd have to - Go back and look at that. But really, it's more year-on-year that we focused on.

Jeremy Sigee, BNP Paribas

Which is variable. Okay.

Todd Tuckner

On the – in terms of the guidance on the P&L drag and in NCL, in terms of what we should expect. Look, I mean, we're really pleased with the performance we've had to date, as I said in my last comments, there's no way to extrapolate from that performance is straight line and to assume that that's the, you know, the pace of which will continue.

So, you know, we – our guidance remains, that's where in terms of the P&L drag at the end of 2026 is right now, still our best estimate when we come back and talk about an outlook in the fourth quarter going forward, you know, potentially we update that and see where we are. But for now, that's our best estimate in terms of where we land.

Jeremy Sigee, BNP Paribas

Understood. Thank you very much.

Kian Abouhossein, JP Morgan

Yes, thanks for taking my questions. The first one is related to Wealth Management. First of all, thanks again for the disclosure. I hope some of the US peers are listening as this was very helpful relative to what I heard before from US peers. Sweep deposits last Disclosure was $35.7 billion. I was wondering where we are roughly right now in the US entity? If you could also share – share with us the advisory part of that so we can kind of understand the adjustment factor and what rate you are paying now versus what rate you will be paying for the fee deposits on this advisory mandates? And in that context, if you could briefly talk about lending, which was down ex-US, just to understand how much of that is related to adjustments of your offering to the CS client versus actually losses in lending?

And then the second question is on legal entity on page 19, a very useful chart. And you talk about further legal entity simplification in the US as well as the UK legal entity going into a branch, I was wondering what capital relief you expect from that or maybe even in subjective terms, if you can talk a little bit about the changes that will happen in when you describe it here on the page.

Todd Tuckner

Thanks, Kian for the question. So on, in terms of the second one, first, the simplification that we talk about is continuing in the UK and in the US, but also in other parts of the world, to continue merging subsidiaries out of existence to create and unlock more capital, funding and tax efficiencies, so that's what we're getting to. So we're working all through that, you know, we just, of course, the big parent bank and Swiss bank mergers, we reparented the IHC, but now there's still a lot of work that will continue to unlock these benefits.

So in terms of capital relief, naturally, to the extent that, and this goes a little bit to the question that was asked earlier in terms of the repatriation of excess capital, say in a subsidiary, of course, that is part of the analysis that we go through as we work through it. But it's, you know, there are contingencies to the timeline in terms of what triggers and what the timing could be to merge some of these entities out of existence.

In terms of GWM, so, you know what I can say on the sweep deposits, first of all, advisory is about a third of the total, the total that we have in sweeps. So, just to give – to dimension that a bit, this is I think that's probably useful to understand. And then as far as the pricing it goes, of course, the way we're, first of all, it's a function of interest rates because I mentioned we're going to introduce the new rates in advisory in the fourth quarter because we have to change systems and go through some transitional work to get there.

So, we have to see also where interest rates are. So in terms of an absolute price that I can't offer, but what I can say is that we will for sure price in the value of the insurance coverage we offer on deposits that benefit from multiple programs, multiple bank programs and reciprocal programs that we've invested in and that will feature into the price of the rate we ultimately offer.

In terms lending balances ex-US the main driver of that, I mean, you know, clearly we've seen deleveraging in a higher interest rate market for outside the US, particular in APAC for several quarters running. You know, we're looking forward and seeing some signs of tapering there, but we continue to see that. As I highlighted, you know, as rates come down, we do expect that should taper and then start – we start to see clients re-leverage. But so, the rate environment is driving some of that but the other part of it, perhaps the more significant driver is the financial resource optimization work we're doing that, you know, a consequence of that is that loans will roll off our platform, which is one of the points I highlighted in connection with the net new asset report.

Kian Abouhossein, JP Morgan

And it's not just on sweep. I know that Morgan Stanley has confirmed 2% rate to be paid. Should we look at similar rates and could you just also remind us of where we are on the sweep volumes at the moment? Last number we saw was $35.7 billion?

Todd Tuckner

Yeah. What I can say Kian is that the number is across to come in a little bit and it's driven – is in also some of the comments I made on mix is driving the 2Q result. So you could assume that number has come a little bit lower and all I could say, you know, get anything further on the rate is, you know, as mentioned competitive dynamics you know will ultimately feature and how we what – we ultimately settle on a price – on price for the sweep deposits.

So, you know, as I said, I gave some views on considerations that we – that we will factor in. But as far as an absolute price, you know, that's not at this point something that we have settled on.

Kian Abouhossein, JP Morgan

Thanks.

Anke Reingen, RBC

Yeah, thank you very much for taking my question – questions. The first one is just on the Basel IV impact of the USD 25 billion on the 1st of January 2025. I guess you said you will give us a bit more detail with potentially before year-end. But I mean, you previously talked about a USD 15 billion net of, yeah, Non-core rundown. Do you have a – can you give us a better indication of how the USD 25 billion will actually look on the 1st of January 2025?

And then, sorry, coming back on the NII guidance, just confirming the P&C reiterating of guidance that's on the US dollar basis rather than Swiss francs. And just conceptually, I mean I see, I mean, you now assume more rate cuts than before, but the guidance is reiterated. Can you just maybe highlight what the missing pieces that allows you to reiterate guidance? Thank you very much.

Todd Tuckner

Yeah, thanks, Anke. So on Basel III final, you know, as mentioned, we still expect a USD 25 billion impact is 5% of risk-weighted assets. So in that range, as you mentioned, we guided in the fourth quarter in our investor update that USD 15 billion is in the core, USD 10 billion's in non-core I think for now, that split remains pretty robust in terms of how we're thinking, how we're seeing it, and naturally will continue to work down the NCL portfolio to make that impact lessened over time.

In terms of the NII guidance for P&C, just, you asked for clarity on – it is in Swiss francs so we're guiding in Swiss francs, we'll offer both in the future to sort of help, as I mentioned in 3Q, we see low – a low-single-digit down in Swissy, but flat sequentially in USD. And as I mentioned, you know, I think that's a good outcome that we've had a number of headwinds that we've been working through, so to reaffirm the guidance for the full year is also a function of some management actions that have been taken, including some loan repricing actions that have helped.

So those are the drivers of the NII guidance for P&C.

Anke Reingen, RBC

Sorry, just to follow up. So on the 1st of January 25, as the 25 – I mean, the 5% increase in RWA or should it be lower because some mitigation or NCL run down has already kicked-in or reduced the impact?

Todd Tuckner

No, no, the estimate is on the same basis we gave it in 4Q terms of the impact because it's mainly FRTB driven. So for now assume the guidance remains and as I said, if we have an update before we go live with it - of course we'll come back and provide it.

Anke Reingen, RBC

Okay. Thank you very much.

Chis Hallam, Goldman Sachs

Yeah, good morning and thanks for taking my questions. So first, you've guided for banking to generate almost twice the baseline revenues by 2026 assuming supportive markets. So, obviously performance was very strong in the second quarter. But then we saw this period of elevated volatility at the start of August. Has that changed anything in terms of how close we are now to supportive markets? And how would you expect the recovery to progress through the second half of this year?

And then second question, just on profitability, at the start of the year, you said you'd expect to get to around 45% of the USD 13 billion gross savings by the end of 2024, and you've got that by the end of the first half. And you also guided for mid-single-digit underlying return on core tier one this year and mid to high for next year. Consensus is at 6% for this year and 9% for next year. But in the first half you're already above 9%. So how should we be thinking now about the path for underlying return on core tier one through 2024 and 2025?

Sergio P. Ermotti

Thank you, Chris. I'll take the first question. So, look, you know, I think, of course, the market environment, it's quite volatile and there are element of fragility that we see. But, you know, what is most important for us is to look through the short-term market dynamics. And, you know, I can tell you that I'm very confident that we are building up a very compelling pipeline in terms of mandate that we win still not announced and things that can be then executed in a normalized market environment.

So, of course, if we see the kind of the volatility we had in a couple of weeks ago, that would not be very helpful for the pipeline. But in general, I'd stay, you know, I would say that - positive in respect of our momentum. So, a good pipeline and good momentum in winning mandates. But, of course, it will also depend on market conditions.

Todd Tuckner

And Chris, on the second, in terms of a return on core tier 1 and how it relates to our guidance. So, you know, as you mentioned, we initially guided it mid - for mid-single-digits for 2024 and mid-to-high for 2025. So naturally, if there's an update, we'll bring it to you and we talk about our 2025 expectations later this year. In terms of where we are, you know, as Sergio highlighted in his comments are the first six months we generated an underlying return on CET1 of 9.2%. So, obviously we're comfortably ahead of the target of mid for 2024.

Amit Goel, Mediobanca

Hi. Thank you. Thanks for taking my questions. So one, just to follow up, just to make sure I also had some of the previous guidance correctly. And I think you mentioned the cost of the reprice on sweep to be about USD 50 million annually. And so, I mean, I guess, given the one third advisory disclosure, that would imply only, you know, just over 40 bps of incremental cost on that portion and effectively nothing on the rest. So, I mean I was just kind of curious, I mean, in a way that you could continue to see outflows, so I'm wondering what the capacity is for the group to replace that funding at similar cost?

And then also just linked to that, if I look then at the total sweep and the cost of the sweep, it seems like that the earnings are pretty similar to what Wealth Management Americas generates. So I'm just kind of curious how you think about Wealth Management Americas profitability and with some of these headwinds, how you think you'll get back to that mid-teens operating margin?

And then secondly, just curious on the parent, you know, is there any scope to shift exposure from foreign participations to domestic in addition to capital repatriation? And, you know, whether that can be reflected in participation values and, you know, if there is potentially will change coming. Thank you.

Todd Tuckner

Thanks, Amit. Yeah, in terms of the second one, shifting exposure domestically, you know, whether that helps, it's way too early to speculate on how we're going to address and what actions we take. We don't know what the standards are. So, and where they'll move to mean – where the standards will move, assuming they move. And so to speculate about what mitigating actions might be available to us is way too early.

Terms of sweeps, yeah, I disclosed that the impact on pre-tax profit is expected be around USD 50 million annualized in the US Wealth Business. You know, I did say that that's net of offsetting factors. So, that includes an array of banking initiatives and expense programs across various categories. So, there, I wouldn't take the USD 50 million as gross income, but actually, as I said, it is a net impact. And I think, look, you know, I saw interesting that you asked the question and then, you know, lead to how we're going to address, you know, the pre-tax margin issues. You know, we – nothing has changed on that.

We're, you know, we're focused on that, we know we have to do. The sweep deposit issue, you know, is a modest hit on that, of course, because it's something we're saying is adverse to PBT. We think it's manageable and now we're getting on with the work of improving the margins on the basis of how we described that in the past. So, we know we have to do there and we're taking steps to achieve that.

Benjamin Goy, Deutsche Bank

Hi, good morning. Two questions, please. So the first one on GWM in particular, America, the cost/income ratio remains above 90% and it was better during low interest rate times. So just wondering with the mix shift from NII, and NII falling [indiscernible] most likely, you see upside to year-end 2026 cost/income ratio improvement in target.

And then secondly on the capital side, you obviously have the group guiding for 14% CET1, but you see the 12.5% more the binding constraint and that's the first half of the question. The second, with Switzerland being the only geography introducing FRTB and not delaying it, do you think that's the final piece of the puzzle in terms of higher capital requirements for you? Thank you.

Sergio P. Ermotti

Let me take the second part of the question. Of course, you know, with the 14% guidance we have right now it stays as it is, and the 12.5%you mentioned it look-through fully applied 2030 at current requirements, we will see exactly how things develop in the next few quarters in terms of future requirements. From FRTB standpoint of view, of course, as you mentioned, Switzerland will introduce that on January 1. It will be a short-term competitive disadvantage, we don't believe it's – we believe it's manageable short-term.

Of course, this, should other jurisdictions not converge, not to converge to Basel III full implementation over the next couple of years then, of course, that would be – it will be more problematic and we would need to think about how to address this matter. So, we remain confident that we will be able to have a level playing field in how we operate and compete globally. But it remains to be seen.

Todd Tuckner

And Benjamin, here's how we think about the – your cost/income ratio question for GWM. You know, we're – we have a look through cost to income ratio presently of around 80%. You know, naturally when we plan the USD 13 billion of gross cost saves and the less than 70% cost income ratio, GWM factors in quite prominently in that piece of work.

And that's why, you know, I've highlighted that the cost income ratio will be benefited by the work that just going to get going in the next quarter or two, which is the client account migration work and platform consolidation starting in APAC and parts of Europe before the Swiss booking center.

That will drive significant cost down and ultimately, you know, which is why I believe that Wealth and P&C will benefit significantly in the latter half of the integration work. So in terms of where we get our cost income ratio, it will – GWM's cost to income ratio in the end will be a big contributor to the group meeting its target of less than 70% by the end of 2026.

Benjamin Goy, Deutsche Bank

Thanks for that. This was in particular on the Americas for GWM Americas, but you probably won't see much of a cost save benefit, but correct me if I'm wrong. Yeah, indeed from the 90 – from the 90% right now, more towards the 85%, accelerate with the different revenue mix?

Todd Tuckner

Question was on the Americas, sorry I didn't hear it. Look, as I said also to the before and I've said previously, we're working towards the mid-teens profit margin over the next couple of years. That's where, you know, we know we have to narrow the gap where we are, that's where we are working towards. And that also features into the, you know, the less than 70% cost/income ratio by the end of 2026, getting to that level. So, you know, nothing that I've guided to today has changed any of that. We're very focused on taking the steps to achieve that by that in that timeframe.

Benjamin Goy, Deutsche Bank

Thank you.

Tom Hallet, KBW

Hi. Thanks for taking my questions. Just – what do you assume in terms of loan and deposit growth in the Swiss business NII guide and your GWM growth in the second half of the year? And then secondly, how do you see deposit mix shift and deposit betas evolving within that guide as well? Thank you.

Todd Tuckner

Yeah, thanks, Tom. So in terms of – in terms of volumes in each of the businesses, you know, I expect loans in both of the businesses through the end of 2024 to come slightly in, largely because of the balance sheet work that I highlighted in my comments. So, I think in both cases, loans would come in. I see deposits as well through on the GWM side as well towards the end of the year.

I mean, roughly flat at this point, I see P&C growing deposits whether, you know, through the rest of this year but certainly as we look out over the longer term. So, I would say a little bit of downward pressure in terms of loans in large part just given the balance sheet work that we're doing.

On a deposit side, I see more of sort of flat to growing in the near to mid-term in terms of the balance sheet. And in terms of, deposit mix shifts look, I think in the end we're, you know, we've been seeing as many banks have the effects of deposit mix and cash sorting and rotation for some period of time, you know, as rates start to come down, we expect that the cash sorting will continue to taper and it'll be less of an impact in terms of the NII.

And, you know, that's a little bit of what we're seeing in our outlook is just given the fact that we expect and are modeling rates coming in, that we are seeing sort of in a way, the last vestige of mix shifts, though, as while rates remain a bit higher. So that's how we see the deposit mix shift evolving.

Tom Hallet, KBW

Thank you.

Sergio P. Ermotti

Okay, there are no more questions. Thank you all for calling in and your questions. And see you in end of October for the Q3 results. Thank you.

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