MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Credit Suisse's ratings with a stable outlook, affirms UBS

01 Dec 2020

Frankfurt am Main, December 01, 2020 -- Moody's Investors Service ("Moody's") has today upgraded the senior unsecured debt ratings of Credit Suisse Group AG to Baa1 from Baa2 and the long-term senior unsecured debt and deposit ratings of its principal bank subsidiary, Credit Suisse AG (CS), to Aa3 from A1. The outlook on these ratings has been changed to stable from positive.

The rating agency further upgraded Credit Suisse AG's Baseline Credit Assessment (BCA) to baa1 from baa2, its Adjusted BCA to baa1 from baa2, and its long-term Counterparty Risk (CR) Assessment to Aa3(cr) from A1(cr). The senior unsecured debt, long-term issuer as well as long-term deposit ratings of all of CS's subsidiaries - where applicable - have also been upgraded. The rating agency affirmed all of the bank's and its subsidiaries' Prime-1 short-term ratings.

Moody's today also affirmed UBS AG's (UBS) Aa2 long-term deposit ratings and its Aa3 long-term issuer and senior unsecured debt ratings with a stable outlook. The rating agency further affirmed UBS AG's a3 BCA and Adjusted BCA and its Aa2(cr) long-term CR Assessment as well as all of its other long- and short-term ratings. Similarly, the senior unsecured debt, issuer as well as deposit ratings of all of UBS's subsidiaries - where applicable - have also been affirmed. The rating agency further affirmed UBS Group AG's A3 senior unsecured debt ratings with a stable outlook and its Ba1(hyb) preferred stock ratings.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL436027 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

---CREDIT SUISSE

The strengthening of CS's credit profile and, thereby, the upgrade of its ratings was driven by the bank's improved and more stable profitability on the back of its structurally lower cost base, additionally supported by sustained lower funding costs and revenue growth in its core businesses. The ratings remain further supported by the stable earnings and lower risk profile of the bank's large global wealth management franchise and well-positioned domestic Swiss banking franchise producing an increased share of recurring revenues for the firm.

The rating upgrades further take account of the sustainable progress the firm has achieved as a result of its 2015-18 restructuring, which included a meaningful de-risking of its balance sheet and a sizeable reduction in capital and risk allocated to the Investment Bank, lowering its inherent reliance on less predictable revenue items, and lifting the returns and operating leverage of the remaining businesses. Moody's expects CS to continue executing on and reinforcing its long-standing business strategy - in addition to further modifications announced earlier this year - thereby maintaining firm control on risks taken within the group, in particular within its Investment Bank.

The rating upgrades also reflect CS having maintained its superior liquidity and solid funding profiles, as displayed through a peer-leading liquidity coverage ratio (LCR) and an above-average maturity profile of its more confidence-sensitive market funding. CS has issued most of its loss-absorbing debt earlier than many peers and the related debt issuances have significantly extended CS's debt maturity profile and lowered its refinancing risk. If maintained, CS's improved ability to manage funding and liquidity needs across the group will increase its resilience to periods of high volatility or funding market dislocation.

CS's ratings continue to take account of the inherent volatility and risk opacity of the bank's capital markets business as well as the heightened confidence sensitivity of that business's client base. Although CS has curtailed a large number of inherently more volatile product lines during its 2015-18 restructuring, the remaining exposure to capital markets activities remains higher and also less diversified than the leading global investment banks (GIBs) peers. The group's comparatively higher dependence on transaction-driven capital market revenues as well as its relatively high exposure to underwriting of leveraged lending and of high-

yield debt transactions, therefore, has the potential to exert meaningful strain on CS's earnings in a highly adverse market environment. At the same time, Moody's believes the bank's solid capital position will help mitigate larger unexpected losses, safeguarding the bank's improved credit profile.

The upgrades further reflect the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis in assessing the bank's existing bail-in-able debt cushion and resulting loss severity for its different debt classes. For deposits and senior unsecured debt, this continues to lead to three notches of rating uplift from the bank's baa1 Adjusted BCA. For senior unsecured debt issued by Credit Suisse Group AG, Moody's Advanced LGF analysis continues to lead to no uplift from the bank's baa1 Adjusted BCA.

Moody's also maintained its assumption of a moderate probability of government support for junior depositors and bank-level senior unsecured creditors at Credit Suisse AG to be forthcoming in case of the bank's failure. This assumption continues to lead to one notch of additional rating uplift for the bank's and its subsidiaries' as well as branches' deposit and senior unsecured debt ratings, where applicable. Further, the rating agency believes that the probability of government support for creditors of Credit Suisse Group AG remains low.

---UBS

The affirmation of UBS's ratings reflects its continued strong capital position, the bank's pro-active approach to risk management as well as its strong liquidity position, all of which help mitigate risks inherent in its capital markets activities, including moderate wholesale funding sensitivities. Its ratings remain further supported by the stable earnings and lower risk profile of the bank's large global wealth management franchise and well-positioned domestic Swiss banking franchise and resulting very high share of recurring revenues and earnings.

UBS runs the most diversified wealth management franchise within its GIBs peer group, including strong presences in both Asia and the US and it is the only wealth manager operating at scale in all large global markets. Its global wealth management business generated more than 50% of the group's revenue and almost 60% of the group's pretax profits over the past few years, supporting earnings stability. In conjunction with its resilient domestic universal banking businesses and a more modest reliance on results generated within its investment banking franchise, UBS was able to produce highly resilient earnings over the past few years. Moreover, UBS was able to offset strain from the coronavirus pandemic and persistently ultra-low interest rates on its earnings in 2020-to-date, a clear credit strength.

Similar to its GIBs peers, UBS's ratings further take account of the inherent volatility and risk opacity of the bank's capital markets business and the heightened confidence sensitivity of that business's client base. In addition, the ratings incorporate the risk of potentially sizeable litigation charges as a result of ongoing lawsuits and litigation proceedings.

The affirmation further takes account of the unchanged results of Moody's Advanced LGF analysis in assessing the bank's existing bail-in-able debt cushion and resulting loss severity for its different debt classes. For deposits and senior unsecured debt, this continues to lead to three and two notches of rating uplift from the bank's a3 Adjusted BCA, respectively. For senior unsecured debt issued by UBS Group AG, Moody's Advanced LGF analysis continues to lead to no uplift from the bank's a3 Adjusted BCA.

Moody's also maintained its assumption of a moderate probability of government support for junior depositors and bank-level senior unsecured creditors of UBS AG to be forthcoming in case of the bank's failure. This assumption continues to lead to one notch of additional rating uplift for the bank's and its subsidiaries' as well as branches' deposit and senior unsecured debt ratings, where applicable. Further, the rating agency believes that the probability of government support for creditors of UBS Group AG remains low.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on Credit Suisse's ratings could arise if the group (1) were to achieve a sustainable improvement in its profitability metrics to levels well above the communicated targets; (2) further curtailed its risk appetite in its Investment Bank, in particular with regard to leveraged lending and other non-investment-grade exposures and (3) extended the share of revenue, profits and resources generated from and allocated to its more stable wealth management and Swiss universal banking businesses while maintaining a strong performance in its Investment Bank. Any upgrade remains further contingent on the group reducing its wholesale funding dependence expressed through Moody's market funds ratio to well below the year-end 2019 level.

CS's ratings could be downgraded if the bank (1) failed to deliver on the proposed refinements to its business model, in particular if it failed to keep contained the resources allocated to its capital markets businesses or if it

failed to sustain positive operating leverage; (2) were to suffer from a significant control or risk management failure; or (3) materially increased its risk appetite against a more challenging market environment, in particular if it grew higher-risk lending or capital markets businesses well above market rates. The ratings may also be downgraded in the event of a prolonged market downturn and sustained macroeconomic slump in the Swiss or global economies leading to an unexpected and meaningful deterioration in the group's asset quality, capital and profitability metrics; or its liquidity and funding profile.

CS's ratings could also be downgraded should there be a significant and larger-than-anticipated decrease in the bank's existing stock of bail-in-able liabilities. Although regarded highly unlikely at present, this may lead to fewer notches of rating uplift as a result of Moody's Advanced LGF analysis.

Although unlikely at present, UBS's ratings could be upgraded following a combination of the following: (1) UBS achieving a meaningful reduction in group resources allocated towards its capital markets segment while maintaining sufficient returns; (2) the group further improving its earnings profile and profitability levels, and sustaining these even under more adverse market conditions; (3) UBS maintaining its solid capital position while balancing bondholders' and shareholders' interests; and (4) the group materially decreasing its reliance on wholesale funding sources.

UBS AG's long-term senior unsecured debt ratings could also be upgraded if the bank were to maintain the current proportion of bank-level senior unsecured debt in relation to tangible banking assets. Those ratings currently incorporate the rating agency's expectation for a reduction of such liabilities based on its assessment of the bank's funding plans and the maturity profile of these liabilities. Were this reduction not to occur, it could lead to one additional notch of rating uplift for the bank-level senior unsecured debt ratings as a result of Moody's Advanced LGF analysis. However, this would have no impact on any other ratings of the bank or the group.

UBS's ratings could face downward pressure if (1) the bank were to suffer from any control or risk management failure; (2) UBS were to materially increase its risk appetite, such as by materially increasing capital allocation to the Investment Bank or modifying its well-established group risk management and stress-testing framework to allow greater risk-taking; or (3) there were a significant deterioration in the bank's asset quality, capital or liquidity, for example, as a result of a prolonged market downturn and sustained macroeconomic slump in the Swiss or global economies; unexpectedly high litigation charges; or significantly lower earnings from its global wealth management franchise.

UBS's ratings could also be downgraded if there was a significant and larger-than-expected decrease in the bank's existing bail-in-able debt buffer, leading to a higher loss severity for its various debt classes. Although regarded unlikely at present, this may lead to fewer notches of rating uplift as a result of Moody's Advanced LGF analysis.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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• Disclosure to Rated Entity

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• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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