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## Credit Suisse AG And UBS AG Outlooks Revised To Stable As Bail-In Framework Develops; 'A/A-1' Ratings Affirmed

### Primary Credit Analysts:

Giles Edwards, London (44) 20-7176-7014; giles.edwards@standardandpoors.com

Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@standardandpoors.com

### Secondary Contacts:

Bernd Ackermann, Frankfurt (49) 69-33-999-153; bernd.ackermann@standardandpoors.com

Dirk Heise, Frankfurt (49) 69-33-999-163; dirk.heise@standardandpoors.com

Richard Barnes, London (44) 20-7176-7227; richard.barnes@standardandpoors.com

### OVERVIEW

- We continue to believe the prospect of extraordinary government support for systemic Swiss banks could become uncertain around the end of this year following enhancements to the country's already advanced resolution regime.
- At that time, we expect to regard the Swiss resolution regime as an effective framework for the bail-in approach to bank resolution.
- Credit Suisse and UBS already have material buffers of loss-absorbing capacity and will very likely grow them substantially in the coming two years.
- They are also setting up domestic subsidiaries to improve their resolvability. Based on current details, we expect that this will not materially weaken their intrinsic creditworthiness.
- We are revising to stable from negative the outlook on Credit Suisse AG, UBS AG, and their core subsidiaries. We are affirming the 'A/A-1' ratings on these entities, and the 'BBB+' ratings on Credit Suisse Group AG and UBS Group AG. The outlook on these holding companies remains stable.
- The stable outlook reflects our expectations for the development of bank regulation in Switzerland. It also reflects our expectation that these groups will continue to gradually build their buffers of additional

loss-absorbing capacity in the coming two years, and that their intrinsic creditworthiness will remain solid.

LONDON (Standard & Poor's) June 9, 2015--Standard & Poor's Ratings Services said today that it has revised to stable from negative the outlook on Switzerland-based Credit Suisse AG (CS) and UBS AG and the other core operating companies in their groups. Where relevant, we affirmed our 'A-1' short-term and/or 'A' long-term counterparty credit ratings on these entities.

At the same time, we affirmed the 'BBB+' long-term counterparty credit rating on Credit Suisse Group AG and the 'BBB+/A-2' long- and short-term counterparty credit ratings on UBS Group AG. The outlooks on both entities remain stable.

We also affirmed the issue credit ratings on subordinated and hybrid capital instruments issued by these entities and related entities in the two groups.

#### RATIONALE

The rating actions reflect our view that the sizable and growing buffers of additional loss-absorbing capacity (ALAC) at CS and UBS are likely to offset any decline in the prospect of extraordinary government support by the end of this year, as the Swiss bank resolution regime is completed.

We continue to believe that, although the prospect of extraordinary government support for systemic Swiss banks remains "supportive" for now, it is likely to become less predictable from the end of 2015. This reflects the timeframe for planned legal enhancements to the country's already advanced resolution regime, which include giving the regulator FINMA bail-in power over holding companies and the ability to effect a legal stay on the close-out of derivative contracts. At that time, we expect to recognize the Swiss resolution regime as likely to allow a well-defined and effective bail-in process--under which FINMA would permit nonviable, systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We consider that the completion of a credible resolution framework will afford the Swiss government significant leeway in determining how much, if any, solvency support to provide to a failing systemic bank. This view, and the rating affirmation, take into account our observation that CS and UBS already have a sizable volume of loss-absorbing capital, which we expect they will build further. We consider it highly likely that the group credit profiles (GCPs) of CS and UBS, and so our issuer credit ratings on their core operating companies, will continue to benefit from one notch of uplift, either for government support or ALAC support.

Our assessment of CS' and UBS' ALAC includes most but not all of their capital instruments, because we believe they usually have capacity to absorb losses without triggering a default on the senior obligations of the core operating companies--notably CS AG and UBS AG--and they meet our other criteria for inclusion.

On this basis, we calculate that CS' ALAC was 3.2% of Standard & Poor's risk-weighted assets (S&P RWA) at year-end 2014, below the 5.25% threshold that we consider necessary for one notch of uplift. However, CS has since issued over 10 billion Swiss francs (CHF) of "bail-inable" senior debt out of a funding entity guaranteed by Credit Suisse Group AG, nearly doubling the end-2014 ALAC ratio. Given the internal downstream mechanism associated with these issues, we include them as ALAC for CS AG, which contributes to our expectations of ALAC approaching 7.5% of S&P RWA by end 2015. We anticipate that CS will continue to replace existing long-term senior debt with similar instruments as they mature, further improving the share of ALAC to S&P RWA.

For UBS, we calculate an ALAC ratio of 3.8% at year-end 2014. Taking into account issuance in the first quarter of 2015, notably CHF3.5 billion of additional Tier-1 instruments, we estimate an ALAC ratio of 5.2% at end-March 2015.

We currently expect that these ALAC ratios could grow to 11%-12% for CS and 6%-7% for UBS by the end of 2016. This reflects our following expectations:

- From 2016, new regulatory requirements would lead both groups to at least maintain, and probably increase, their existing buffer of ALAC.
- They will likely replace maturing capital instruments (some of which are not ALAC-eligible) with ALAC-eligible instruments.
- CS and maybe UBS will issue a growing volume of bail-inable senior debt at the holding company level, as CS is already doing through special-purpose entities.

We use 5.25% and 8.5% thresholds for one or two notches of uplift for ALAC capacity for UBS and CS, higher than the standard 5.0% and 8.0% thresholds under our criteria. This is because we currently consider that the two groups' loss-absorbing capacity may be positioned in a way that would make it challenging for them to deploy it flexibly in a stress scenario. As regulatory requirements and common practices emerge in this area, we may raise or lower these thresholds.

The unsupported GCPs of CS and UBS remain at 'a-'. This assessment acknowledges the steps that both companies are taking to create subsidiaries that will house their domestic, Swiss-booked businesses. UBS currently expects that UBS Switzerland AG will go live after an asset transfer from UBS AG on June 14, 2015, and CS' Swiss subsidiary appears likely to follow in the second half of 2016. While some details remain unclear, particularly for Credit Suisse, we consider that the creation of these subsidiaries, including possible associated constraints on intragroup exposures and funding, would somewhat impair the fungibility of each group's resources. Nevertheless, our ratings already acknowledge the imperfect fungibility of these resources, as do the groups' treasury and capital management policies, and we do not expect the subsidiaries to be ringfenced from their affiliates. Furthermore, while such restructuring projects carry sizable implementation costs and introduce potential cost inefficiencies, we consider the former to be affordable and nonrecurring, and the latter likely to be easily absorbable within each

group's preprovision earnings.

Since February 2015, we no longer include notches for government support in the ratings on Swiss bank nonoperating holding companies. The affirmations of the ratings on Credit Suisse Group AG and UBS Group AG reflect that we also consider it unlikely that we would include ALAC support in these ratings because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario. For the same reason, we affirmed the issue credit ratings on the hybrid capital instruments issued by CS and UBS and their subsidiaries.

#### OUTLOOK

The stable outlooks on Credit Suisse Group AG and UBS Group AG reflect our expectation that the creation of their domestic subsidiaries will not lead to a meaningful weakening in these groups' intrinsic creditworthiness.

The stable outlooks on CS, UBS, and other core subsidiaries of both groups also reflect our view that Swiss government support will remain predictable for these systemic banks until a credible resolution regime is implemented in Switzerland around the end of 2015. We expect this to be offset by both groups building and sustaining their ALAC buffers in the coming two years, meriting one notch of uplift for ALAC support.

We currently consider it unlikely that we would raise the ratings on CS or UBS while they continue to work through this transitional phase of material legal entity restructuring and, for CS, while its future strategy is considered by new top management. However, in time we could raise the ratings on either company if we revise upward the relevant unsupported GCP. Absent an unexpected, sizable, and sustained rise in core capitalization, we could make such a revision of either unsupported GCP if we consider that the group has demonstrated a business model that is well-funded and well-positioned for the regulatory and economic environment, allowing it to generate relatively stable statutory earnings.

In addition to the above factors, we could revise upward the GCP and so raise the ratings on Credit Suisse AG or UBS AG, and other core subsidiaries, if either group builds its ALAC ratio sustainably beyond 8.5%, resulting in two notches of ALAC uplift in the rating. However, a positive rating action would also depend on our assessment of each group in comparison with global peers.

We could lower the ratings on these holding and operating companies if we revised down the unsupported GCPs, for example if CS or UBS experiences a substantial increase in its exposure to unexpected losses. We could also lower the ratings on the operating companies if the ALAC buffer unexpectedly weakens, or if unexpected regulatory developments have a negative effect on the associated legal entity restructurings.

#### RELATED CRITERIA AND RESEARCH

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

Related Research

- How Standard & Poor's Applied Its Government Support And ALAC Criteria To U.K., German, Austrian, And Swiss Banks, June 9, 2015
- S&P Takes Various Rating Actions On Certain U.K., German, Austrian, And Swiss Banks Following Government Support Review, Feb. 3, 2015
- The Rating Implications Of The Emerging Bank Resolution Frameworks In The U.K., Germany, Austria, And Switzerland, Feb. 3, 2015
- Austria, Germany, And The U.K. Are Set To Fast Track EU Bank Bail-In Rules, Sept. 29, 2014
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

RATINGS LIST

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
UBS AG		
UBS Securities LLC		
UBS Ltd.		
UBS AG (London Branch)		
UBS AG (Jersey Branch)		
Counterparty Credit Rating	A/Stable/A-1	A/Negative/A-1
UBS AG (NY Branch)		
Counterparty Credit Rating	A/Stable/--	A/Negative/--

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Credit Suisse AG  
 Credit Suisse Securities (USA) LLC  
 Credit Suisse Securities (Europe) Ltd.  
 Credit Suisse International  
 Credit Suisse AG (New York Branch)  
 Credit Suisse AG (Cayman Islands Branch)  
 Credit Suisse (USA) Inc.  
 Counterparty Credit Rating                      A/Stable/A-1                      A/Negative/A-1

Ratings Affirmed

UBS Bank USA  
 Counterparty Credit Rating                      --/--/A-1

UBS AG  
 Certificate Of Deposit  
     Foreign Currency                              A-1  
     Local Currency                                A/A-1  
 Senior Unsecured                                A  
 Subordinated                                      BBB  
 Commercial Paper                                A-1

UBS Group AG  
 Counterparty Credit Rating                      BBB+/Stable/A-2  
 Junior Subordinated                              BB

UBS AG (Jersey Branch)  
 Senior Unsecured                                A  
 Senior Unsecured (1)                            A  
 Senior Unsecured                                Ap  
 Subordinated                                      BBB

UBS Finance (Curacao) N.V.  
 Senior Unsecured (1)                            A

UBS Americas Inc.  
 UBS Finance (Delaware) LLC  
 Commercial Paper (1)                            A-1

UBS Capital Securities (Jersey) Ltd.  
 UBS Preferred Funding Trust IV  
 UBS Preferred Funding Trust V  
     Preferred Stock (1)                            BB+

UBS Preferred Funding (Jersey) Ltd.  
     Preferred Stock (2)                            BB+

Credit Suisse Group AG  
 Counterparty Credit Rating                      BBB+/Stable/--

Credit Suisse AG	
Senior Unsecured	A
Senior Unsecured	Ap
Subordinated	BBB
Junior Subordinated	BB+
Short-Term Debt	A-1
Commercial Paper	A-1
Credit Suisse (USA) Inc.	
Senior Unsecured	A
Commercial Paper	A-1
Credit Suisse AG (New York Branch)	
Senior Unsecured	A
Credit Suisse Group AG	
Junior Subordinated	BB
Credit Suisse Group Capital (Guernsey) III Ltd.	
Preferred Stock (3)	BB
Credit Suisse Group Finance (Guernsey) Ltd.	
Senior Unsecured (3)	BBB+
Junior Subordinated (3)	BB+
Credit Suisse Group Finance (U.S.) Inc.	
Subordinated (3)	BBB-
Credit Suisse Group Funding (Guernsey) Ltd.	
Senior Unsecured (3)	BBB+
Credit Suisse International	
Senior Unsecured	A
Senior Unsecured	Ap
Senior Unsecured	CC
Junior Subordinated	BBB-

(1) Guaranteed by UBS AG. (2) Guaranteed by UBS AG (Jersey Branch). (3) Guaranteed by Credit Suisse Group AG.

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

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Client Support Europe (44) 20-7176-7176; London Press Office (44)  
20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm  
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