S&P Global
Ratings

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Research Update:

Outlook On UBS Holdings Revised To Stable On Decreasing Tail Risks; Ratings Affirmed

June 4, 2024

Overview

- As of May 31, 2024, UBS Group AG had completed the legal merger between UBS AG and Credit Suisse AG, a key milestone in its integration and restructuring of Credit Suisse. UBS Group AG's first-quarter results for 2024, published in May, indicated that group's franchise had stabilized and profitability had improved.
- We consider that the tail risks from the group's integration and restructuring have eased.
- Therefore, we revised to stable from negative our outlooks on UBS Group AG and UBS Americas Holding LLC, the group's nonoperating holding companies. At the same time, we affirmed our 'A-/A-2' issuer credit ratings on these entities.
- At the same time, we affirmed our 'A+/A-1' long- and short-term issuer credit ratings on all UBS's existing core operating entities, including UBS AG. The outlooks on these ratings remain stable.

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Rating Action

On June 4, 2024, S&P Global Ratings revised to stable from negative its outlooks on UBS Group AG and UBS Americas Holding LLC, the UBS group's nonoperating holding companies. At the same time, we affirmed our 'A-/A-2' long- and short-term issuer credit ratings on these entities.

We also affirmed our 'A+/A-1' long- and short-term issuer credit ratings on all of the group's core operating entities, including UBS AG. The outlooks on these ratings are stable.

Following the legal merge of Credit Suisse AG and UBS AG, we have withdrawn the ratings on Credit Suisse AG. UBS AG has succeeded to all the rights and obligations of Credit Suisse AG, including all outstanding Credit Suisse AG debt instruments.

Rationale

Financial results for the first quarter of 2024 show that USB group's profitability is improving and it has already accomplished much toward the integration and restructuring of Credit Suisse. This includes the legal merger of UBS AG and Credit Suisse AG and makes us increasingly comfortable that management will succeed in largely completing the integration by the end of 2026.

In our view, the tail risks affecting UBS' financial profile because of its integration of Credit Suisse are receding. Financial, operational, and reputational risks to the group's performance and franchise could still trigger a downgrade, but strong capital and improving profitability support our view that these risks have become less likely and more manageable. Thus, we revised our outlook on the UBS Group AG and UBS Americas Holding LLC, the UBS group's nonoperating holding companies, to stable from negative.

The group has made rapid progress toward reducing complexities and establishing aligned risk framework throughout the group. In our view, the group has made considerable progress toward strengthening the risk and governance culture at Credit Suisse. Key upcoming milestones in the group's restructuring process include:

- The transition to a single U.S. intermediate holding company is planned for the second quarter, subject to remaining regulatory approvals.
- The merger of Credit Suisse (Schweiz) AG and UBS Switzerland AG in third-quarter 2024, subject to remaining regulatory approvals.
- The transfer of clients and integration of the risk and compliance functions. UBS expects to complete this by year-end 2025.
- Credit Suisse applications decommissioning, which the group plans to largely accomplish by year-end 2026.

The group made significant progress in cost reductions. Given that cost-savings will continue to feed through, reflecting legal mergers and the decommissioning of systems and platforms, we anticipate that further improvements in profitability will follow. In the first quarter of 2024, the group reported net profit of $1.9 billion, which would indicate a return on average equity of 8.2% and a cost-to-income ratio of 80.5%. The bottom-line result is blurred by purchase price allocation (PPA) and integration-related items, although, to a large extent, these offset each other. Management plans to achieve an underlying return on common equity Tier 1 (CET1) of around 15% and cost to income below 70% by 2026 exit rate; we continue to see this as ambitious. We forecast that over the next two years, performance metrics will improve only slightly from the first-quarter 2024 level.

Strong capital provides a buffer against uncertainty. At the end of the first quarter, the group reported a CET1 capital ratio of 14.8%. Over the next two years, management aims to maintain a CET1 ratio of around 14%. This supports out forecast for our main capital measure: the risk-adjusted capital (RAC) ratio. If the group continues to reduce risk-weighted assets and improve underlying profitability, we anticipate that our RAC ratio will increase to 15%-16% by year-end 2025, from 12.7% for 2023. This would imply very strong capital, generally. However, we adjust our forecast downward because we consider that earnings will remain subject to tail risk related to the restructuring for the next two years. Our projections are also sensitive to uncertainties related to the speed at which management reduces its risk-weighted assets (RWAs) in the run-off unit.

Continued strong execution will be needed to reduce the risks associated with the winding-down of noncore assets. Since the acquisition, the group has reduced its RWAs in noncore portfolio by US$28 billion (one-third of the previous total), mostly via active sales. In our view, the decreased size and complexity of the overall portfolio has reduced the extent and likelihood of adverse events materially affecting the group's profitability or capital. Nevertheless, the remaining noncore portfolio is still large--with RWA of US$58 billion--and this still represents a material risk to future performance. We continue to highlight this as one of the potential triggers for a downgrade in our outlook.

Fair-value valuation is used for most of the portfolio. However, fair-value valuations also expose the group's performance to market swings. This continues to capture management's attention and weighs on capital and growth potential. The pace of the run-off depends on capital markets' appetite for the noncore assets and, in general, on investor sentiment.

Outlook

UBS Group AG

The stable outlook indicates that we expect UBS to continue to deliver on the integration and restructuring of the Credit Suisse group over the next two years. Although we regard management's targets as ambitious, we expect a gradual improvement in profitability to finally enable the group to catch up with peers. We also expect management to successfully turn around governance and risk culture in the acquired Credit Suisse operations.

Downside scenario: We could revise down the 'a' stand-alone credit profile (SACP) and lower our rating if we think UBS' financial profile has weakened because of the merger. The main downside triggers are related to the risk that the group may fail to improve its profitability so that it is in line with the peer average and the potential tail risks associated with winding down a large part of Credit Suisse's investment banking activities. If we were to revise down the SACP, we would also lower our issue ratings on all related instruments, including hybrid capital.

Upside scenario: We don't expect to raise the rating within the next two years.

UBS AG

The stable outlooks on UBS AG and the other core operating entities indicate that we expect management to successfully restructure the group while sustaining a large buffer of additional loss-absorbing capacity (ALAC), which supports the ratings.

The ratings are not directly sensitive to a hypothetical one-notch downward revision of the group SACP to 'a-'. In such a scenario, we expect UBS' core operating entities to be eligible for an additional notch of ALAC uplift due to the size of the group's ALAC buffer.

Downside scenario: Although we view it as unlikely, we could downgrade UBS AG and other core operating entities if we were to revise down the SACP by two notches, to 'bbb+'. We could lower the ratings if merger-related risks were realized, causing a sharp decrease in capitalization, or if we saw a risk that outstanding or new litigation could result in charges that were much larger than those in our base case.

Upside scenario: We see an upgrade as a remote scenario, given the already-high 'a' group SACP.

Ratings Score Snapshot

UBS Group AG (Holding company)	To	From
Issuer credit rating	A-/Stable/A-2	A-/Negative/A-2
UBS AG (Lead bank)		
Issuer credit rating	A+/Stable/A-1	A+/Stable/A-1
SACP	a	a
Anchor	a-	a-
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	+1	+1
ALAC support	+1	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- UBS Group AG, March 6, 2024
- Research Update: Ratings On UBS Group Affirmed On Progress On Restructuring, Feb. 6, 2024
- UBS Group AG's Proposed Additional Tier 1 Perpetual Notes Assigned 'BB' Rating, Nov, 8, 2023
- Bulletin: UBS' Results Indicate Progress On Credit Suisse Integration And Restructuring While Customer Confidence Returns Slowly, Nov. 7, 2023
- Research Update: Credit Suisse Entities Upgraded To 'A+' On Improved Support Prospects; Ratings On UBS Entities Affirmed, Sep. 7, 2023
- Various Rating Actions Taken On Credit Suisse And UBS Group Entities After Merger Completion, June 12, 2023
- Outlook On UBS Group Revised To Negative On Execution Risk From Credit Suisse Acquisition; Ratings Affirmed, March 20, 2023

Ratings List

Ratings Affirmed; Outlook Action

	Final	To	From
UBS Group AG			
UBS Americas Holding LLC			
Issuer Credit Rating		A-/Stable/A-2	A-/Negative/A-2
Ratings Affirmed; Ratings Withdrawn			
Credit Suisse AG			
Issuer Credit Rating	NR	A+/Stable/A-1	A+/Stable/A-1
Resolution Counterparty Rating	NR	AA-/--/A-1+	AA-/--/A-1+

Ratings Affirmed	
UBS AG	
UBS AG (London Branch)	
UBS AG (Jersey Branch)	
UBS Switzerland AG	
UBS Europe SE	
Credit Suisse AG (New York Branch)	
Credit Suisse AG (Cayman Islands Branch)	
Credit Suisse (Deutschland) AG	
Credit Suisse (Schweiz) AG	
Credit Suisse Securities (Europe) Ltd.	
Credit Suisse International	
Credit Suisse Bank (Europe) S.A.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Credit Suisse (USA) Inc.	
Issuer Credit Rating	A+/Stable/A-1
Credit Suisse Securities (USA) LLC	
UBS Securities LLC	
UBS Bank USA	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
UBS AG (New York Branch)	
Issuer Credit Rating	A+/Stable/--
Resolution Counterparty Rating	AA-/--/--
Subordinated	BBB+
UBS AG	
Certificate Of Deposit	
Foreign Currency	A+/A-1
Local Currency	A+
UBS AG (London Branch)	
Certificate Of Deposit	
Foreign Currency	A-1
Senior Unsecured	A+
Short-Term Debt	A-1
Commercial Paper	A-1
UBS Group AG	
Senior Unsecured	A-
Junior Subordinated	BB

Junior Subordinated	BB+
Credit Suisse AG (Sydney Branch)	
UBS AG	
UBS AG (Australia Branch)	
UBS AG (Jersey Branch)	
Credit Suisse (Singapore Branch)	
Credit Suisse (USA) Inc.	
Credit Suisse AG (Guernsey Branch)	
Senior Unsecured	A+
Credit Suisse AG	
Senior Unsecured	A+
Subordinated	BBB+
Credit Suisse AG (London Branch)	
Senior Unsecured	A+
Senior Unsecured	A+p
Subordinated	BBB+
Credit Suisse AG (New York Branch)	
Senior Unsecured	A+
Commercial Paper	A-1
UBS Americas Inc.	
Commercial Paper	A-1

NR--Not rated.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.