

Rating Action: Moody's takes rating actions on nine Swiss banks and banking groups following update to Banks Methodology

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Frankfurt am Main, July 13, 2021 -- Moody's Investors Service (Moody's) has today taken rating actions on nine Swiss banks and banking groups, including the upgrade of the long-term issuer ratings of two entities and the upgrade of the long-term Counterparty Risk Ratings (CRRs) of six issuers.

The rating actions were driven by revisions to Moody's Advanced Loss Given Failure (LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, and the reclassification of high-trigger Additional Tier 1 (AT1) securities into Advanced LGF, following the publication of Moody's updated Banks Methodology on 9 July 2021.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL449287 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

A separate rating announcement for Credit Suisse Group AG can be found here: https://www.moodys.com/research/--PR_449095.

All other Swiss banks were unaffected by today's rating actions and the update of the Banks methodology.

RATINGS RATIONALE

Today's rating actions on nine Swiss banks and banking groups were driven by revisions to the Advanced LGF framework within Moody's updated Banks Methodology.

In particular, the banks' ratings were mostly affected by the revised notching guidance thresholds at lower levels of subordination in the liability structure that have been applied to all Swiss banks.

For UBS AG, the rating actions also take account of the inclusion of several of its subsidiaries' tangible banking assets as well as loss-absorbing debt in Moody's Advanced LGF analysis. The inclusion reflects Moody's view that group-wide resolutions coordinated in a unified manner will be more common following the requirement to issue internal loss absorbing capital (ILAC), leading to a likely transfer of losses from subsidiaries to parents at the point of failure.

The update further includes the consideration of all AT1 securities issued by banks domiciled in Switzerland in Moody's Advanced LGF framework, eliminating the previous analytical distinction between those high-trigger instruments that were deemed to provide equity-like absorption of losses before the point of failure and other AT1 securities.

RATINGS RATIONALE FOR INDIVIDUAL BANKS

--- Bank Julius Baer & Co. Ltd. (BJB) / Julius Baer Group Ltd. (JBG)

Moody's upgraded BJB's long-term issuer and senior unsecured debt ratings to A2 from A3, the bank's long-term CRRs to A1 from A2, and its long-term Counterparty Risk Assessment (CRA) to Aa3(cr) from A1(cr).

The upgrades take account of the higher volume of debt subordinated to these debt classes as a result of the inclusion of high-trigger AT1 securities in Moody's Advanced LGF framework as well as benefitting from the revised notching guidance thresholds at lower levels of subordination in the liability structure, which better captures the risk characteristics of these classes of debt following the agency's revised view around the distribution of losses post failure.

--- Bank Vontobel AG (Bank Vontobel) / Vontobel Holding AG (Vontobel Holding)

Moody's upgraded Vontobel Holding's long-term issuer ratings to A2 from A3, Bank Vontobel's long-term/short-term CRRs to A2/P-1 from A3/P-2 and the bank's long-term CRA to A1(cr) from A2(cr).

The upgrades take account of the higher volume of debt subordinated to these debt classes as a result of the inclusion of high-trigger AT1 securities in Moody's Advanced LGF framework as well as benefitting from the revised notching guidance thresholds at lower levels of subordination in the liability structure, which better captures the risk characteristics of these classes of debt following the agency's revised view around the distribution of losses post failure.

Further, Vontobel Holding's preferred stock ratings on its high-trigger AT1 instruments were upgraded to Baa2(hyb) from Baa3(hyb). The Baa2(hyb) rating, positioned three notches below Bank Vontobel's a2 Adjusted Baseline Credit Assessment (BCA), reflects the high loss-given-failure for the AT1 securities issued by Vontobel Holding and the securities' coupon skip mechanism and write-down features.

--- Banque Pictet & Cie SA (Banque Pictet)

Moody's upgraded Banque Pictet's long-term CRRs to A1 from A2 and its long-term CRA to Aa3(cr) from A1(cr).

The rating action reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating and assessment levels better capture the risk characteristics of these counterparty liabilities.

--- Berner Kantonalbank AG (BEKB)

Moody's upgraded BEKB's long-term CRRs to A1 from A2 and its long-term CRA to Aa3(cr) from A1(cr).

The rating action reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating and assessment levels better capture the risk characteristics of these counterparty liabilities.

--- Clientis AG (Clientis)

Moody's affirmed Clientis' Baa2 long-term CRRs and the bank's Baa1(cr) long-term CRA. The affirmation reflects the rating agency's expectation that a potential benefit from the revised notching guidance thresholds at lower levels of subordination in the liability structure is likely to be offset by future balance sheet growth and lower volumes of senior liabilities.

--- Raiffeisen Schweiz

Moody's affirmed Raiffeisen Schweiz' long-term Aa3 deposit ratings and its A3 senior unsecured debt rating and changed the outlook on these instruments to Positive from Stable. Concurrently, the rating agency upgraded the bank's long- and short-term CRRs to A2/P-1 from A3/P-2 and its long-term CRA to A1(cr) from A2(cr). At the same time, Moody's affirmed Raiffeisen Schweiz' a3 BCA and Adjusted BCA.

The affirmation of the a3 BCA reflects the broadly unchanged financial strength of the bank, despite a slightly weaker solvency profile following the removal of equity credit for high-trigger AT1 instruments. Further, the affirmation positively incorporates that Raiffeisen Schweiz has successfully addressed past governance failures in the group's risk management and control systems, while the bank's concentration risks arising from its large mortgage portfolio in Switzerland and the resulting vulnerability to potential shocks in the Swiss real estate market keep constraining its BCA. However, the rating agency explicitly points out the scope for a higher BCA if the bank successfully manages to broaden its business profile and diversifies its earnings.

The affirmation of the senior unsecured debt and long-term deposit ratings followed the affirmation of the bank's BCA and unchanged results from Moody's Advanced LGF analysis for these instrument classes. The upgrades of the bank's CRRs and CRA take account of the higher volume of debt subordinated to these debt classes as a result of the inclusion of high-trigger AT1 securities in Moody's Advanced LGF framework as well as benefitting from the revised notching guidance thresholds at lower levels of subordination in the liability structure, which better captures the risk characteristics of these classes of debt following the agency's revised view around the distribution of losses post failure.

--- UBS AG (UBS) and UBS Group AG

The affirmation of UBS AG's a3 BCA takes account of the removal of equity credit for high-trigger AT1

instruments from UBS's going-concern capital as measured by Moody's tangible common equity (TCE) ratio. This means that UBS has a reduced capacity to absorb unexpected losses before the point of failure, resulting in a slightly weaker solvency position. However, UBS's capital which strength remains evident in an unchanged Capital score, despite the removal of high-trigger AT1 securities from the rating agency's TCE ratio, which therefore had no effect on the bank's BCA.

Further, the rating agency has upgraded UBS's as well as its subsidiaries' and branches' subordinated and backed subordinated debt ratings -- where applicable -- by one notch to (P)A3 or A3 from (P)Baa1 or Baa1, respectively. The upgrade takes account of the higher volume of debt subordinated to this debt class as a result of the inclusion of high-trigger AT1 securities in Moody's Advanced LGF framework as well as benefitting from the revised notching guidance table thresholds at lower levels of subordination in the liability structure. This leads to these ratings now being positioned in-line with the bank's BCA.

Moody's also upgraded UBS Group AG's preferred stock rating on its high-trigger AT1 instruments to Baa3(hyb) from Ba1(hyb). The Baa3(hyb) rating, positioned three notches below UBS's a3 Adjusted BCA, reflects the high loss-given-failure for the AT1 securities issued by UBS Group AG and the securities' coupon skip mechanism and write-down features.

--- Union Bancaire Privee SA (UBP)

Moody's upgraded UBP's long-term CRRs to A1 from A2 and the bank's long-term CRA to Aa3(cr) from A1(cr).

The rating action reflects the benefit from the increased likelihood that the rating agency now places on failure scenarios where losses are low, which is reflected in more advantageous notching guidance at lower levels of subordination. As such, the upgraded rating and assessment levels better capture the risk characteristics of these counterparty liabilities.

--- Zuercher Kantonalbank (ZKB)

Moody's affirmed the Aaa backed long-term issuer ratings of ZKB and the bank's Baa1(hyb) preferred stock (high-trigger AT1 securities) rating.

The affirmation of the Aaa backed long-term issuer ratings reflects the rating agency's forward looking assumption that the bank will issue additional loss-absorbing debt instruments over the outlook horizon to address its rising going concern capital requirements, thereby increasing the share of liabilities that absorb losses prior to senior unsecured debt instruments, from which the backed issuer ratings are derived. The additional issuance is an important consideration for the rating agency to continue to assume a low loss-given-failure for senior unsecured debt, resulting in one notch of rating uplift from Moody's Advanced LGF analysis.

The affirmation of the Baa1(hyb) preferred stock rating takes into account that the Swiss regulator FINMA can write-down the bank's high-trigger AT1 instruments once extraordinary support has been provided by the bank's owner, the Canton of Zurich. Moody's therefore notches these instruments from the bank's a1 BCA, reflective of the bank's intrinsic strength prior to extraordinary support. The Baa1(hyb) rating, positioned three notches below ZKB's BCA, reflects the high loss-given-failure for the AT1 securities issued by ZKB and the securities' coupon skip mechanism and write-down features.

OUTLOOK

The rating agency has changed the outlook on Raiffeisen Schweiz' long-term deposit and senior unsecured debt ratings to Positive from Stable, reflecting the potential for a higher BCA and Adjusted BCA if the group successfully implements its strategic plan to broaden its business profile and revenue base, thereby balancing its current material mortgage-lending related concentration risks.

Moody's changed the outlook on Julius Baer Group Ltd.'s long-term issuer rating to Positive from Stable to reflect its expectation that issuances of senior unsecured holding company debt or lower-ranking instruments may lead to stronger loss absorption capacity and lower losses in resolution for these liabilities, potentially warranting a higher rating uplift under Moody's Advanced LGF framework.

The outlooks on Bank Julius Baer & Co. Ltd.'s long-term issuer and senior unsecured debt ratings, Vontobel Holding AG's long-term issuer ratings and Zuercher Kantonalbank's backed long-term issuer ratings remain Stable.

All other rating outlooks for the banks affected by today's rating action remain unchanged.

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

The affected long-term deposit ratings, senior unsecured debt ratings, issuer ratings, subordinated debt and preferred stock ratings, as well as CRRs and CRAs could be upgraded following an improvement in the standalone creditworthiness of the banks, or as a result of higher affiliate support assumptions or stronger parental creditworthiness.

The long-term deposit, senior unsecured debt ratings, and issuer ratings could also be upgraded following a significant increase in the stock of more junior bail-in-able liabilities.

The affected ratings and assessments could be downgraded following a substantial deterioration in the standalone creditworthiness of the banks; as a result of lower affiliate support assumptions or parental creditworthiness; or following a significant reduction in the stock of bail-in-able liabilities.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL449287 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
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- Lead Analyst
- 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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moody.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

The person who approved Bank Julius Baer & Co. Ltd., Bank Julius Baer & Co. Ltd., Guernsey Branch, Bank Vontobel AG, Banque Pictet & Cie SA, Berner Kantonalbank AG, Clientis AG, Julius Baer Group Ltd., Raiffeisen Schweiz, Union Bancaire Privee SA, Vontobel Holding AG and Zuercher Kantonalbank credit ratings is Michael Rohr, Senior Vice President, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456

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