RatingsDirect®

Various Ratings Actions On Swiss Banking Groups On Rising Economic Imbalances

Primary Credit Analysts:
Dirk Heise, Frankfurt (49) 69-33-999-163; dirk.heise@standardandpoors.com
Salla von Steinaecker, Frankfurt +496933999164; salla.vonsteinaecker@standardandpoors.com

Secondary Contacts:
Nicolas W Hengstebeck, Frankfurt (49) 69-33-999-167; nicolas.hengstebeck@standardandpoors.com
Constance Hauville, Paris (33) 1-4420-6749; constance.hauville@standardandpoors.com
Francois Moneger, Paris (33) 1-4420-6688; francois.moneger@standardandpoors.com
Sylvie Dalmaz, PhD, Paris (33) 1-4420-6682; sylvie.dalmaz@standardandpoors.com
Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@standardandpoors.com
Giles Edwards, London (44) 20-7176-7014; giles.edwards@standardandpoors.com
Markus W Schmaus, Frankfurt (49) 69-33-999-155; markus.schmaus@standardandpoors.com

- We believe economic risk in Switzerland's banking sector has increased incrementally, owing to the cumulative increase in Swiss house prices over the past several years.
- In our view, this has led to rising economic imbalances, which, although still low in a global context, have also led to macroprudential measures by the central bank to rein in robust growth in mortgage indebtedness.
- We are revising our banking industry country risk assessment (BICRA) on Switzerland to '2' from '1' due to our assessment of rising economic risk, although we now consider the economic risk trend to be stable.
- We are lowering our counterparty credit ratings on six domestic Swiss banks, and affirming our ratings on various other Swiss financial institutions.

FRANKFURT (Standard & Poor's) Dec. 1, 2014--Standard & Poor's Ratings Services today lowered by one notch its long-term counterparty credit ratings on six Switzerland-based banks:

- Aargauische Kantonalbank;
- Basellandschaftliche Kantonalbank;
- Graubuendner Kantonalbank;

1372311 | 301671495

- Luzerner Kantonalbank;
- Migros Bank; and
- Schwyzer Kantonalbank.

The outlook on the long-term ratings on all six banks is stable.

At the same time, we affirmed all ratings on the following Swiss financial institutions:
- Bank J.Safra Sarasin Ltd.;
- Bank Vontobel AG and Vontobel Holding AG;
- Banque Cantonale de Geneve;
- Banque Cantonale Vaudoise;
- Basler Kantonalbank;
- Cembra Money Bank AG;
- Credit Suisse AG and Credit Suisse Group AG;
- PostFinance AG and its parent company Die Schweizerische Post AG;
- UBS AG; and
- Zuercher Kantonalbank.

The various outlooks on these banks are also unchanged.

For a full list of the counterparty credit ratings and outlooks on all banks see "RATINGS LIST" below.

The rating actions reflect our view that economic risk in the Swiss banking sector has risen continuously, although this risk remains low in a global context. We consider that the strong cumulative growth in residential real-estate prices and domestic lending in Switzerland over the past several years, particularly mortgage lending, represents an incremental risk for those Swiss banks that have mainly domestic operations and large exposures to the Swiss real estate market. Although we recognize that house price rises have slowed somewhat since the beginning of 2014, they remain historically high.

Given that domestically oriented Swiss banks have significant residential real estate loan exposures of up to 90% of total bank loans, a currently unexpected deterioration in house prices could lead to higher loan losses, in our view. However, in our base case, we see a low risk of a sharp correction in property prices. We have now revised our overall assessment of Swiss banks' economic risk to '2'--on a scale of 1 (lowest risk) to 10 (highest risk)--to reflect this. This is among the best scores of the 85 banking systems we assess globally.

We now assess the economic risk trend in the Swiss banking industry as stable compared with negative previously, indicating that we see a strong likelihood that economic risk for Swiss banks will remain unchanged over the next six months to two years. This reflects our view that ongoing efforts by the central bank and Swiss regulators to rein in mortgage debt using macroprudential and self-regulatory measures will prevent further growth in imbalances.

Our assessment of increased economic risk has led us to revise down the anchor, the starting point for a rating, for Swiss banks with mainly domestic operations to 'a-' from 'a', based on their respective business or loan distribution. The impact of this change on our individual bank ratings and outlooks varies depending on our assessment of factors underpinning banks' stand-alone credit profiles and external support considerations.

DOWNGRADES

Our downgrade of the ratings on six Swiss banks reflects the following individual reasons:

Aargauische Kantonalbank, Basellandschaftliche Kantonalbank, Graubuendner Kantonalbank, Luzerner Kantonalbank, and Schwyzer Kantonalbank.

Our one-notch downgrade of the long-term counterparty credit ratings on these five banks reflects that they are domestic-oriented Swiss banks with significant residential real estate loan exposures. They are therefore exposed to increased risks in a scenario of a house price correction that could lead to higher loan losses and weakening asset quality. We have therefore revised down our assessment of their respective stand-alone credit profiles (SACP) to 'a+' from 'aa-'. We continue to factor into the ratings two to three notches of uplift from their respective SACPs, reflecting our unchanged view that these banks benefit from being government-related entities (GRE). We consider that there is an "extremely high" likelihood that the respective cantons would provide future timely and sufficient extraordinary support to the respective banks in the event of financial distress. However, the lower SACPs on these banks no longer warrant an equalization with the ratings on their respective majority-owner cantons. We also lowered the subordinated debt rating on Luzerner Kantonalbank to 'A-' from 'A', as we derive the rating from the bank's SACP.

The stable outlooks on all these cantonal banks reflect our view that their capital and earnings sufficiently buffer potential domestic financial risks. Furthermore, it incorporates our expectation of the continued likelihood of support from their respective owners and guarantors, if needed. We would consider lowering the ratings on these banks if we saw a pronounced deterioration in their stand-alone creditworthiness, although we currently view this as highly unlikely. Even in this very remote case, the ratings would be supported by an "extremely high" likelihood of support, in our view. We are unlikely to raise the ratings in the next 12-24 months. However, all else remaining equal, we could raise the ratings on Basellandschaftliche, Graubuendner, and Luzerner Kantonalbanks if we raised our ratings on the respective cantons.

Migros Bank

We lowered the long- and short-term counterparty credit ratings. The outlook is now stable. Migros Bank has significant residential real estate loan exposure. It is therefore exposed to increased risks in a potential scenario of a house-price correction, which could lead to higher loan losses. We continue to assess the bank's risk position as weaker than most of its peers. To secure its price-leading position in the Swiss mortgage lending market, Migros Bank applies somewhat lower minimum standards when granting mortgage loans and its risk management capabilities are comparably less advanced than peers, which leads to a slightly weaker asset quality in comparison. We have revised down our assessment of Migros Bank's SACP to 'a-' from 'a'. We continue to factor no uplift from its SACP into the issuer credit rating. The stable outlook on Migros Bank reflects our belief that the bank will maintain its risk and financial profiles, benefiting from its current capitalization, funding profile, and asset quality.

AFFIRMATIONS

Our affirmations of the ratings on 11 Swiss financial institutions reflect the following individual reasons/bank-specific factors:

Zuercher Kantonalbank (ZKB)

The affirmation reflects that, while the ratings on ZKB are affected by the lower anchor for Swiss banks, this was offset by our revised view of ZKB's business position as "strong" from "adequate". This reflects our view that ZKB's diversification and operational stability are greater than domestic bank peers, especially the smaller regionally concentrated cantonal banks. Moreover, ZKB acts as a product and service provider for the group of cantonal banks not least through its key role in syndicate lending. Finally, it displays by far the largest market shares among the group of cantonal banks in both deposit taking and lending business in Switzerland. The negative outlook mainly reflects continued legal and financial risk due to possible prosecution by the U.S. tax authorities due to the bank's acceptance of undeclared funds from U.S. clients.

Banque Cantonale de Genève (BCGe)

The affirmation of our ratings on BCGe reflects that, despite our revised view on Swiss economic risk, the anchor is unchanged at 'a-'. This is because a large share of the bank's operations is in countries outside Switzerland, including France, for which our assessment of economic risk is greater than for Switzerland. The stable outlook reflects our view that the Swiss bank resolution regime is unlikely to constrain the Republic and Canton of Geneva from providing timely support to BGCe. The outlook also takes into account that the durability and the strength of the links between the canton and the bank are expected to be stable, while BGCe should grow moderately and its assets perform in line with peers.

Banque Cantonale Vaudoise (BCV)

The affirmation on BCV reflects that, although we have revised down the anchor on the bank to 'a-' and the SACP to 'a', this is offset by one additional notch of uplift for government support given our 'AAA' rating on the Canton of Vaud. The stable outlook reflects our view that the Swiss bank resolution regime is unlikely to constrain the cantonal government from providing timely support to BCV. Even if BCV's credit quality weakened, leading us to revise our SACP assessment downward by one notch, we would not lower the long-term rating, all else being equal. This is because, according to our criteria, a downward revision of the SACP by less than two notches would be offset by an additional notch of uplift for extraordinary government support, given our

'AAA' rating on the Canton of Vaud.

Basler Kantonalbank (BKB)
The affirmation on BKB reflects that the lowering of the anchor to 'a-' and the SACP to 'a' does not affect the issuer credit rating, as this is offset by one additional notch of uplift for government support from the Canton of Basel-City. The outlook on BKB is stable, reflecting our view that BKB's capital and earnings will sufficiently buffer potential fines stemming from potential legal prosecution by the U.S. tax authorities due to acceptance of undeclared funds from U.S. clients. It also reflects that the bank is continuing to improve its risk management systems. We assess the likelihood of support from the Canton of Basel-City in case of need as extremely high, and we see no evidence that the ability and willingness of the canton to provide timely support will change.

Die Schweizerische Post AG (DSP) and PostFinance AG.
The affirmation of the ratings on PostFinance and its parent DSP reflects that these institutions are not exposed to the Swiss housing market due to legal restrictions on PostFinance to extend loans. The 'a-' anchor of PostFinance and DSP already reflects the blended economic risk in countries PostFinance is exposed to through its large investment portfolio. The stable outlook on DSP and its subsidiary PostFinance mirrors that on their ultimate owner, the Swiss Confederation. It also reflects our expectation that the Swiss Post group's very close links to the state, its ownership, and its mandate to provide key public services will not change in the foreseeable future.

UBS AG and Credit Suisse AG.
The affirmation of our ratings on UBS and Credit Suisse reflect that, despite our revised view on Swiss economic risk, the banks' domestic household exposure remains a low-risk segment relative to their overall risk profiles. Therefore, the anchor on these banks, based on blended economic risk in their exposures, is unchanged at 'a-'. The negative outlooks on UBS and Credit Suisse reflect that we could lower the ratings on these groups' operating companies and, where relevant, non-operating holding companies (NOHCs) by year-end 2015 if we believe there is a greater likelihood that senior unsecured creditors may incur losses if the group fails. In the case of Credit Suisse Group, which is a NOHC, we may accelerate this timing if we see a heightened risk of regulatory intervention for its senior creditors compared with those of its operating companies.

Bank Vontobel and J.Safra Sarasin Group
We are affirming the ratings on Bank Vontobel and J.Safra Sarasin Group because they are not sensitive to imbalances in the Swiss housing market, in our view. J.Safra Sarasin Group has only limited exposure to the domestic housing market and Bank Vontobel has none. The lower anchor of 'a-' for domestically-oriented Swiss banks is offset by our revised view of these banks' risk positions, leading to an affirmation of their SACP and ratings. The negative outlook on J.Safra Sarasin Group reflects potential risks inherent to its investment portfolio, notably its exposure to some emerging markets, which could potentially negatively affect the bank's capital or risk

positions should they materialize. The negative outlook on Bank Vontobel reflects in particular our view that we may lower our ratings if we believed the bank would not post and maintain a risk-adjusted capital (RAC) ratio above the 10% threshold over the next two years.

Cembra Money Bank AG
The affirmation reflects that, despite the one-notch lower anchor of 'a-' Cembra is not directly affected by developments in Swiss real estate markets because it does not grant domestic mortgage loans. We consider Cembra's risk position to be "adequate" and that its risk metrics compare favorably to consumer finance peers in other European jurisdictions with similar economic risk assessments. The outlook on Cembra is negative, reflecting execution risks linked to Cembra's funding strategy over the next 24 months.

BICRA SCORE SNAPSHOT*

Switzerland	To	From
BICRA Group	2	1
Economic risk	2	1
Economic resilience	Very low risk	Very low risk
Economic imbalances	Low risk	Very low risk
Credit risk in the economy	Low risk	Low risk
Trend	Stable	Negative
Industry risk	2	2
Institutional framework	Low risk	Low risk
Competitive dynamics	Low risk	Low risk
Systemwide funding	Low risk	Low risk
Trend	Stable	Stable

*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

RELATED CRITERIA AND RESEARCH
Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Group Rating Methodology, Nov. 19, 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
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Related Research

- Banking Industry Country Risk Assessment Update, Nov. 3, 2014
- Outlook On Nine Swiss Banks To Negative On Exposure To Rising Property Prices; Ratings On All Swiss Banks Affirmed, July 3, 2012

RATINGS LIST

All ratings refer to counterparty credit ratings

Ratings Lowered

	To	From
Aargauische Kantonalbank	AA+/Stable/A-1+	AAA/Negative/A-1+
Basellandschaftliche Kantonalbank	AA/Stable/A-1+	AA+/Negative/A-1+
Graubuendner Kantonalbank	AA/Stable/A-1+	AA+/Negative/A-1+
Luzerner Kantonalbank	AA/Stable/A-1+	AA+/Negative/A-1+
Migros Bank	A-/Stable/A-2	A/Negative/A-1
Schwyzer Kantonalbank	AA+/Stable/A-1+	AAA/Negative/A-1+

Ratings Affirmed

Bank J. Safra Sarasin Ltd	A/Negative/A-1
Bank Vontobel AG	A/Negative/A-1
Vontobel Holding AG	A-/Negative/A-2
Banque Cantonale de Geneve	A+/Stable/A-1
Banque Cantonale Vaudoise	AA/Stable/A-1+
Basler Kantonalbank	AA/Stable/A-1+
Cembra Money Bank AG	A-/Negative/A-2
Credit Suisse AG	A/Negative/A-1
Credit Suisse Group AG	A-/Negative/--
Die Schweizerische Post AG and PostFinance AG	AA+/Stable/A-1+
UBS AG	A/Negative/A-1
Zuercher Kantonalbank	AAA/Negative/A-1+

NB: This list does not include all ratings affected.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: 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 (46) 8-440-5914; or Moscow 7 (495) 783-4009.