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Cost-Benefit-Analysis

Analysis of the costs and benefits from proposed changes to the regulatory capital treatment of participations in foreign subsidiaries of Swiss-based SIBs

26 May 2025

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Contents

Glossary of terms

Term	Definition
$ / USD	US Dollar
A&M	Alvarez & Marsal Switzerland GmbH
AT1	Additional Tier 1 Capital
BIS	Bank for International Settlements
bn	Billion
BoD	Board of Directors
BS	Balance Sheet
CAO	Capital Adequacy Ordinance
CAPM	Capital Asset Pricing Model
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 capital
CHF	Swiss Franc
CSI	Credit Suisse International
FINMA	Swiss Financial Market Supervisory Authority
FY	Financial Year
G-SIB	Global Systemically Important Bank
IPO	Initial Public Offering
L-T	Look-Through (using fully applied risk weights)
m	Million
M-MT	Modigliani-Miller Theorem
P&L	Profit and Loss Statement
Parent / Parent Bank	UBS AG
RWA	Risk-Weighted Assets
SIB	Swiss Systemically Important Bank
TBTF	Too-Big-To-Fail
TLAC	Total Loss-Absorbing Capacity
tn	Trillion (1000 billion)
YTD	Year-to-Date
ZKB	Zurich Cantonal Bank

1. Summary of key findings

1.1. Background, approach and limitations

(1) **Mandate:** This report sets out an analysis of the potential costs and benefits associated with the proposed modifications to the capital regime for systemically important banks (SIBs) in Switzerland. Specifically, this analysis was performed for the State Secretariat for International Finance (the "Client") against a proposal to move from a Risk-Weighted Assets (RWA) approach for investments in foreign subsidiaries of SIBs, to a capital deduction approach for regulatory capital purposes on a solo-entity (standalone) reporting basis ("Draft Proposal"). As outlined in paragraphs (35)-(37), while the Draft Proposal would apply to all SIBs, based on publicly available information it would only affect UBS AG ("Parent Bank" or "UBS Parent Bank").

(2) **Approach**: In our analysis (a) we estimated the amount of, and related cost of, additional Common Equity Tier 1 (CET1) capital required according to the Draft Proposal, (b) explored potential responses that the Bank affected by the Draft Proposal might take to meet the new requirements, (c) qualitatively assessed the consequences of these actions on its stakeholders, including shareholders, employees, counterparties and the Swiss economy, and finally (d) discussed whether the Draft Proposal would achieve its intended goals, i.e. reducing double leverage, enhancing financial stability, and improving the Parent Bank's strategic flexibility during crises.

(3) **Limitations:** The analysis is based exclusively on publicly available data, such as UBS's disclosures, Federal Council reports, and academic literature. Our cut-off date for processing data was 25 April 2025. At this time, the latest available financial information and Pillar 3 reports for UBS was for the quarter and year ended December 2024. Certain critical internal data such as detailed regulatory capital composition, Pillar 2 capital requirements and internally calculated costs of debt and equity were not available. Further, the analysis does not include original statistical or economic surveys; instead, it relies on existing studies and literature to which reference is made along the report, which may not fully capture the specific nuances of the Draft Proposal's impact. In preparing this analysis, we did not engage in any discussion or communication with the affected Bank (UBS) or its stakeholders and finally a static balance sheet was assumed, i.e. potential changes in UBS's financial position or market conditions over time were not taken into account.

1.2. Evaluation of costs and benefits

(4) **Capital requirement impact:** Different approaches were considered when estimating the additional CET1 capital required by UBS AG (Standalone) under the Draft Proposal, which are set out in the summary chart in Figure 1.

- The **First Approach** estimates the CET1 capital gap based on an assumed minimum Pillar 1 coverage of 10% of the 2028 fully applied risk weighted assets (400%) for participations in foreign domiciled subsidiaries, according to the regime currently in force as set out in the *Capital Adequacy Ordinance* (CAO). This approach calculates the amount by which the capital requirement attributable to the participations in foreign subsidiaries would increase.
- The **Second Approach** estimates the CET1 capital gap as the amount by which the CET1 capital at end-2024 held by UBS AG (Standalone) would need to increase for it to exactly meet the proposed new Pillar 1 capital requirement described in the First Approach. This approach differs from the First Approach because at end-2024 UBS AG

(Standalone) held excess CET1 capital above the amount required by the Pillar 1 capital requirement then applied.

- The **Third Approach**, which represents our leading analysis, uses a target CET1 capital ratio range of 12.5% to 13.5% and the 2028 fully applied risk weightings for participations in domestic and foreign subsidiaries. Under this approach, we estimate that UBS AG (Standalone) would require an additional $19.7 billion to $23.3 billion in CET1 capital to maintain a CET1 ratio of 12.5% to 13.5% under the Draft Proposal.
- The First, Second and Third Approaches described above assume that no other measures are introduced to reduce the capital requirements (e.g. change in Group structure). However, UBS has publicly stated that UBS AG Standalone intends to target a CET1 capital ratio of between 12.5% and 13.0% going forward and plans $5 billion of further capital repatriations from the foreign subsidiaries after year-end 2024. This is discussed in further detail in the body of the report in paragraphs (73)-(75). This repatriation would reduce the carrying value of the foreign subsidiaries, which in turn would reduce the deduction from capital and so potentially reduce the capital gaps by up to $5 billion. For the Third Approach this might reduce the capital gaps as far down as to $14.7 billion and $18.3 billion. In the bar chart below, this is represented by the bars corresponding to the Third Approach.
- In respect of these announced future actions (i.e., the 12.5% - 13.0% CET1 range and the additional $5 billion distribution of capital from subsidiaries) caution is needed in taking them into account to reduce the costs of the proposed modifications to the capital regime as the actions are both (1) future and (2) possibly the amounts, timings, and form of these actions might have been influenced by a contemplation of the possible changes to the capital regime, e.g., as they were discussed in the Swiss Federal Council Report on Banking Stability issued in April 2024 (also known as the TBTF Report). This is not clear to us, but we do know that UBS had planned for the distribution of capital from subsidiaries since the acquisition of Credit Suisse.[1] Also, the quantum, if any, of the consequential reduction in the capital gaps in respect of the $5 billion might depend on how capital is extracted from the foreign subsidiaries.
- Based on the Third Approach, we estimate that the additional CET1 capital would incur between $0.8 billion to $1.3 billion in annual financing costs (run rate). This assumes that the capital gap is covered through a pure equity raise and/or capital retention, combined with a retirement in equal amounts combined of AT1 and debt.
- The chart in Figure 1 provides a summary of additional CET1 capital required and net annual cost (run rate) of the additional CET1 capital under the three different approaches as described above.

[1] https://webcast.swisscom.ch/csr/#/webcast/6786242be85a07d4ff1d1ee2/en

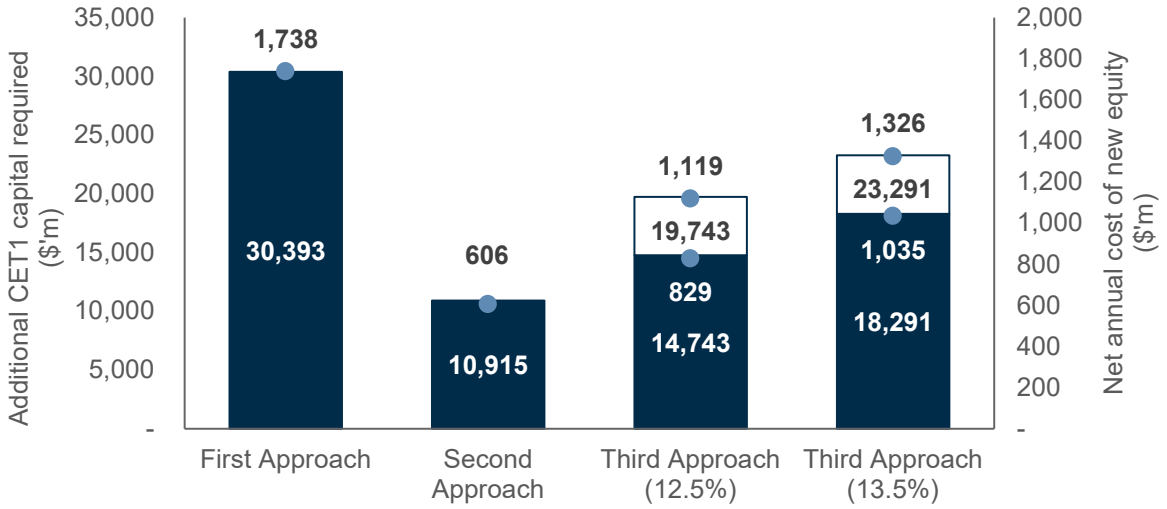

Figure 1: comparison of CET1 capital required and net annual cost of new equity under different approaches Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups" pp. 107-109; https://webcast.swisscom.ch/csr/#/webcast/6786242be85a07d4ff1d1ee2/en; A&M Analysis

(5) **Modigliani-Miller theorem:** The Modigliani-Miller theorem ("M-MT") suggests that increasing the proportion of equity financing relative to debt can lower perceived risk and reduce the cost of new debt. For UBS AG, this could result in lower interest or coupon payments when AT1 instruments or debt are called, reissued, or renegotiated. However, these potential savings are also influenced by various factors, including regulatory requirements, market conditions, and the bank's financial health. UBS AG currently holds a relatively strong credit rating compared to many of its G-SIB peers, reflecting its perceived financial stability and market position. This strong credit rating may be partially attributed to market perceptions of an implicit state guarantee. While UBS does not have an explicit state guarantee from Switzerland, a recent study from the University of Bern[2] suggested that UBS Group AG benefits from lower debt servicing costs due to an implicit state guarantee linked to its "Too Big to Fail" ("TBTF") status. However, UBS, has consistently disputed claims that it enjoys such an implicit guarantee.[3] Given UBS's already high credit rating, estimating potential cost savings on its remaining debt with certainty is challenging. According to our interpretation of the M-MT, as credit quality improves, the marginal utility (savings) decreases. In light of these considerations, in paragraph (92) we have illustrated potential hypothetical cost savings on the remaining AT1 instruments and TLAC eligible unsecured debt of UBS AG. We estimated these hypothetical cost savings to be in the range of $0 to $71 million and $0 to $809 million for the remaining AT1 instruments and TLAC eligible unsecured debt, respectively, based on a hypothetical reduction of up to one percentage point in the annual interest rate.

(6) **Phased implementation option:** A longer phase-in period would increase the Bank's flexibility to adjust its capital structure and manage stakeholder impacts effectively, but it would also lead to a slower achievement of the intended benefits. Indicatively, in case of a

[2] C. Monnet, D. Niepelt, R. Taudien, "Pricing liquidity support: A PLB for Switzerland", Discussion Papers, No. 25-01, University of Bern, Department of Economics, Bern (2025)
[3] Annual General Meeting - UBS Group AG on 24 April 2024 - Speech by Sergio P. Ermotti, Group Chief Executive Officer

nine-year linear phase-in, the annual CET1 capital requirement is approximately $2.2 billion using a 12.5% target CET1 ratio. However, pressure from market participants often leads banks to implement new capital standards on a fully loaded basis earlier than the formal date set in regulations. So, even if a nine-year phase-in period is used, the cost may occur perhaps several years ahead of the dates contemplated under a phase-in.

(7) **Alternatives to capital increase:** As a (partial) alternative to raising the full capital amount of approximately $14.7 billion to $23.3 billion referenced above, the Bank might seek to decrease RWAs, i.e., de-risk, thereby lowering denominators of the capital ratios and/or increase CET1 capital at the UBS Parent Bank. These two possible responses are commented as follows:

- **RWA decrease:** A decrease of RWAs can be achieved through various measures such as restricting new business or loan rollovers, allowing non-core portfolios to roll off or disposing of such portfolios entirely, by selling foreign subsidiaries, by engaging in securitization transactions to transfer risk off its balance sheet, by increase pricing of higher-risk loans, or by reducing risk appetite to high RWA business.
- **CET 1 increase:** An increase in CET1 capital can be achieved through a combination of profitability initiatives (including revenue-side measures, such as increasing pricing or margins, and cost-side measures, such as operational efficiencies or headcount reductions), repatriating excess capital from subsidiaries to the Parent Bank, capital raises, capital retention measures or selling businesses / portfolios.

(8) **Potential costs**: The possible responses come along with potential costs to implement for the UBS Parent Bank itself as well as potential flow on effects for its stakeholders.

- **De-risking / de-leveraging** could risk affecting the Bank's profitability and market share, in turn possibly having negative consequences for shareholders. Additionally, these strategies if implemented (at least in part) on Swiss business, may temporarily reduce the availability of credit or increase borrowing costs in Switzerland, particularly for lower-rated borrowers and counterparties if these credit needs cannot be met by competitors or alternative lenders.
- **Repatriating capital** from the subsidiaries to the Parent Bank could affect subsidiaries' capital and liquidity position, reducing their buffers above regulatory requirements.
- **Profit initiatives** through price increases and service reductions could affect the Bank's market share and have possible negative consequences for employees and customers of the Bank.
- **Capital retention** might result in a higher cost of capital and lower returns to shareholders.
- **Capital raise** would dilute existing shareholders and could increase the company cost of capital, especially if the capital raise needs to occur during a period in which global equity markets are disrupted.

(9) **Major benefits:** The major benefits that the Draft Proposal aims to achieve are the goals outlined in the Federal Council's Report on Banking Stability of April 2024 (see paragraph (27)). The implementation of the Draft Proposal would:

- Remove the incentive to use double leverage for financing foreign-based subsidiaries while also ensuring that Parent Bank's operations are entirely backed by capital within the same entity;
- Enhance the Bank's flexibility during crises by removing the Parent Bank's vulnerability to

impairment losses on foreign subsidiaries, thereby enabling significant restructurings or the potential sale of participations without compromising its regulatory capital adequacy;
- Help mitigate the impact of ring-fencing measures imposed by foreign regulators by decreasing the reliance on cross-border capital fungibility.

(10) Furthermore, the proposal aligns with the objectives of the Too-Big-To-Fail regime by encouraging structural adjustments and thus reducing systemic risks. A strongly capitalised UBS would be better able to withstand significant losses without risking insolvency, reducing the chances of failure and strengthening the Swiss economy's resilience to global banking crises.

(11) A stronger capital position, reflected in relatively higher capital adequacy ratios compared to other G-SIBs of comparable size, could place UBS in a better position to access new capital and clients, retain and attract talent and potentially enable it to gain market share, as these ratios signal financial strength and resilience to stakeholders.

(12) **Capital adequacy ratio comparison:** Once the CET1 capital increase is achieved and all other things remaining equal, i.e., excluding possible mitigation measures, further RWA reductions undertaken as part of the Credit Suisse merger, and other potential regulatory changes, UBS would become the G-SIB with the highest capital adequacy ratio at approximately 23-36% more than the average Bucket-2 G-SIB and above. This might increase UBS's cost of capital and potentially place UBS at a significant competitive disadvantage both globally and domestically, in turn, potentially necessitating a change in its strategy to safeguard the viability of its business model. A comparison of the CET1 capital ratio of UBS Group to G-SIB peers pre-and-post the impact of the Draft Proposal is illustrated in Figure 2.

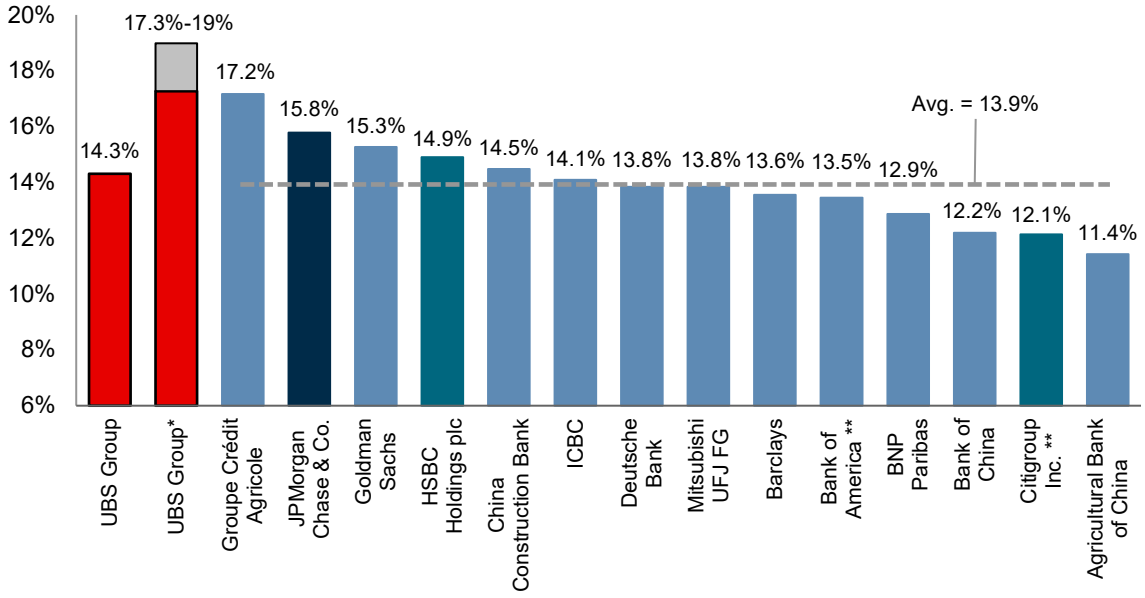

Figure 2: Comparison of CET1 Capital Ratios of Bucket 2-4 G-SIBs as per 31 December 2024.
** Includes an additional $14.7-$23.3bn (range based on assumptions described in paragraph (4) of CET1 capital representing 'Approach 3'. ** Based on the Advanced CECL Fully Phased-In approach. BoA and Citi Group also publish CET1 ratios based on the standardised CECL fully phased-in approach, which are 11.8% and 13.6% respectively. Dark blue: G-SIB Bucket 4. Teal: G-SIB Bucket 3. Light blue: G-SIB Bucket 2, which is also the bucket into which UBS is placed.*
Source: refer to Figure 10

2. Background, approach and limitations

2.1. Background of the Mandate

2.1.1. Background to current capital requirements and regulatory capital treatment for Parent Banks with participations in Swiss and foreign subsidiaries

(13) The current capital requirements applicable to Swiss-domiciled banks holding a FINMA banking licence are set out in the *Capital Adequacy Ordinance* (CAO)[4]. One aspect of these capital requirements is the regulatory capital treatment of a Swiss Parent Bank's participations in domestic and foreign subsidiaries. These requirements as they apply in the context of Swiss SIBs are summarised in the following excerpt from the Swiss Federal Council Report on Banking Stability issued in April 2024[5].

Box 3: Capital adequacy of subsidiaries

In accordance with capital adequacy requirements, a bank must back its business activities (in particular its assets) with capital. The amount of capital required is determined on the basis of risk (RWA).

This principle applies both to the group (in the consolidated financial statements) and to each individual group entity that holds a banking licence (namely the parent bank, also known as the parent entity or parent company, and the subsidiaries in Switzerland and abroad).

Group structures contain various elements of financial interconnectedness between the entities by way of intragroup items, which play a role in capital adequacy. Particular attention should be drawn to participations at parent bank level, which are an important source of capital at subsidiary level.

Group structure of G-SIBs in Switzerland
Both UBS and Credit Suisse have or had a group structure topped by a group (holding) company (see Figure 7, Figure 9 and chapter 14). In both cases, immediately below this level there is a central entity, the parent bank, which conducts banking business directly as well as holding participations in various subsidiaries in Switzerland and abroad. The Swiss entity, which performs the systemically important functions in Switzerland, is one of these subsidiaries.

Current regulation of partial capital adequacy
Using the example of a banking group that consists of a parent bank and a wholly owned foreign subsidiary below the top-level group company, the currently applicable regulatory capital requirements are explained in a simplified manner below.

The foreign subsidiary must back its business activities with capital; the definitive regulatory capital requirements are those of the subsidiary's country. The subsidiary's capital mainly comes from the parent bank and is recognised on the latter's balance sheet as a participation on the assets side (see the following chart).

Figure 3: from "Federal Council Report on Banking Stability", Box 3, p. 56 (Apr 2024 – Eng version)

[4] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Anhang 4[293]
[5] "Federal Council report on banking stability", Box 3, p. 56 (Apr 2024 – Eng version)

(14) In this report, the term *"Parent Bank"* or *"Parent"* is used as described in the excerpt above. It refers to a Swiss legal entity that holds a banking licence, conducts banking business directly and holds participations in various subsidiaries in Switzerland and abroad. This entity is both a Swiss bank and the Parent entity of a banking group that includes other banks, either Swiss or foreign.

(15) A Parent Bank is subject to *separate capital-adequacy calculations*, based on its consolidated and its standalone balance sheets, respectively.

(16) The *consolidated balance sheet* comprises the assets and liabilities of the Parent Bank and of its subsidiaries. The consolidated capital-adequacy calculation assesses whether the Group (as a whole) holds sufficient capital resources to back its banking activities, irrespective where in the Group (i.e., Parent or subsidiaries) the capital is held and/or the banking activities occur.

(17) The *standalone balance sheet* comprises solely the assets and liabilities of the Parent Bank. The participations that the Parent Bank holds in its subsidiaries are included as assets in the standalone balance sheet. The standalone capital-adequacy calculation assesses whether the Parent Bank holds sufficient capital to conduct the banking activities that it directly undertakes, which is in line with the principle that solvency must be determined at the level of the individual legal entity.

Treatment for Swiss and foreign subsidiaries

(18) The balance sheet is the starting point in a capital-adequacy calculation. It shows and describes both the assets and capital held. In that calculation some assets (e.g., loans) are assigned a risk weight that is then used to determine the required capital, while other assets (e.g., intangibles) are deducted from the capital held. The capital-adequacy calculation then compares the capital held (after such deductions) with the required capital. A full description of the calculation can be found in the CAO[6].

(19) The Parent Bank's participations in its Swiss and foreign subsidiaries are recorded as assets in its standalone balance sheet. At present, the CAO assigns risk weights for these participations, under the so-called "RWA-approach". The *Draft Proposal* – which is the scope of discussion in this paper – replaces the RWA-approach with a capital deduction-approach for the foreign subsidiaries of Parent Banks. The Draft Proposal does not propose changes to the risk-weight approach for participations in Swiss subsidiaries.

(20) The rules in the CAO regarding risk weights for participations in Swiss and foreign subsidiaries are summarised as follows:

As at 4Q24, Swiss-domiciled subsidiaries of Swiss SIB's are risk-weighted to 230% and foreign-domiciled subsidiaries to 320%[7]. These risk weights will increase annually by 5 percentage points for Swiss-domiciled subsidiaries and by 20 percentage points foreign-

[6] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Anhang 4a[294]
[7] Pillar 3 Report 31 December 2024 UBS Group and significant regulated subsidiaries and sub-groups p. 108

domiciled subsidiaries until the risk weights of 250%[8] and 400%[9], respectively, are achieved in 2028.

Impact of current requirements

(21) When the risk weight of 400% is achieved in 2028, this will roughly correspond to a 60% capital backing of participations held by a Parent Bank in foreign subsidiaries. That means the required capital in respect of those participations would correspond to approximately 60% of the carrying value of those participations in the Parent Bank's standalone balance sheet. This is illustrated in Figure 4. The calculation which derives this 60% result is set out in detail in Section 3.2.

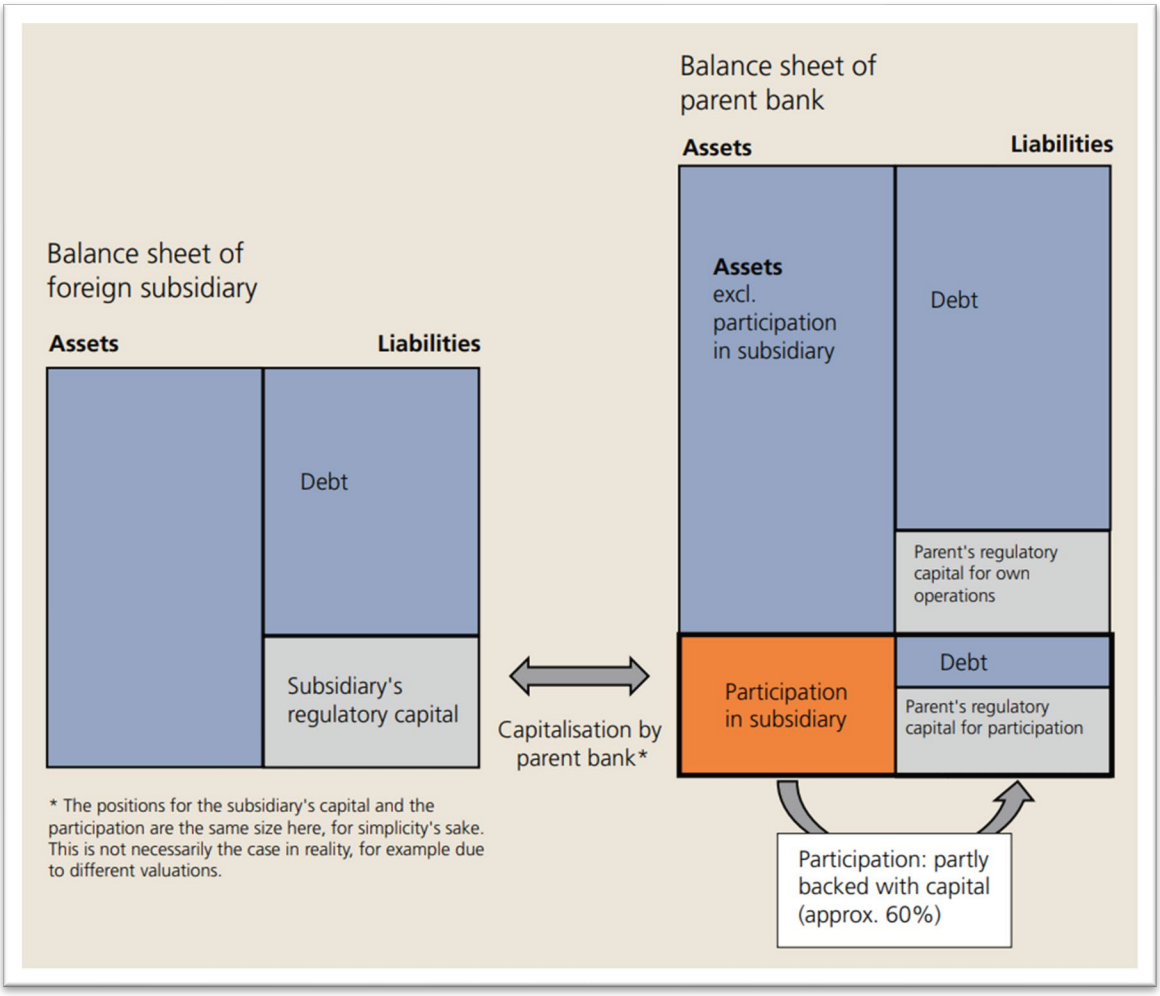

Figure 4: Illustration of the current capital requirements. "Federal Council report on Banking Stability", p. 57 (Apr 2024 – Eng version)

[8] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Anhang 4[293]
[9] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Anhang 4[293]

(22) The 60% result shown above refers to *'going concern' capital* and it is explained as follows:

- Under the CAO, the going-concern capital is defined as Common Equity Tier 1 Capital ("CET1") and so-called Additional Tier 1 ("AT1") capital.[10] However, the CAO also sets a minimum requirement for the quantum of CET1 that must be held.[11]
- The effect of this requirement is that (from 2028) at least 40% out of the 60% would need to be covered by CET1. The calculation for CET1 is set out in detail in Section 3.2 below.

(23) The 40% CET1 and 60% going-concern capital results described above refer only to the so-called *Pillar 1 capital requirement*. In addition, banks are subject to a bespoke – so-called Pillar 2 – capital requirement set by FINMA. The bespoke amounts of this for each bank are not public and therefore are not known to the authors of this report.

2.1.2. Context and introduction of the Draft Proposal and its intended outcome

(24) The lessons which the Swiss Federal Council has drawn from the Credit Suisse crisis are an important aspect of the context which has led to the Draft Proposal in respect of a Parent Bank's participations in foreign subsidiaries. This may be seen in the following excerpts from the Swiss Federal Council's Report on Banking Stability from April 2024.[12]

- *"During the Credit Suisse crisis, in which foreign participations in particular had to be revalued and consequently written down significantly, this incomplete capital backing of foreign participations also meant that the strategic room for manoeuvre was critically restricted. Disposal of foreign participations, even if both desirable for recovery and liberating in a crisis, became impossible, as the consequences would be hard for the Parent Bank's capital base to withstand. The sale of foreign business divisions would have led to further write-downs on participations. However, as these participations were not fully backed by capital in the Parent Bank, a write-down would have quickly led to a shortfall in the Parent Bank's capital requirement".*
- *"Any ring-fencing measures taken by foreign authorities would have had the same effect. Had foreign authorities decided to separate the local subsidiaries from the group and wind them down, instead of supporting a restructuring of the entire group under FINMA's leadership, these participations would very likely have become worthless in the Parent Bank's balance sheet and this would have resulted in a loss for the Parent Bank in the full amount of the participations. However, as the Parent Bank was only required to hold capital for a portion of the participations, a substantial capital gap would have arisen at the Parent Bank. In the event of the Parent Bank becoming insolvent (e.g. if the emergency plan were triggered), its customers and creditors would have suffered high losses in the bankruptcy proceedings, while those of the subsidiaries would have been better off."*

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[10] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Art. 18 Kapitalbestandteile

[11] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Anhang 8^{300} and Anhang 9^{302} and, Pillar 3 Report - UBS Group and significant regulated subsidiaries and sub-groups", p. 107 (Dec 2024)

[12] "Swiss Federal Council report on banking stability", (Apr 2024 – Eng version). Section "7.4.2.2 Parent bank capitalization as a critical vulnerability"

(25) Based on our understanding, the following hypothetical example illustrates the points which the Federal Council is making here:

- A Parent Bank holds a participation in a foreign subsidiary which, say, has a carrying book value of CHF 1 billion in the Parent Bank's standalone balance sheet and is fully recognised as eligible CET1 capital in the Parent Bank's regulatory capital.
- As at 2028, the Parent Bank is required to hold CET1 capital related to the corresponding risk-weighting of the foreign subsidiary of CHF 400 million (40% of CHF 1 billion) and AT1 of CHF 200 billion (20% of CHF 1 billion, with 20% = 60% - 40%).
- Now contemplate that due to an adverse event, the Parent Bank needs to write down the carrying book value of the participation by, say, 10%, i.e., CHF 100 million. That write down would result in CET1 decreasing by CHF 100 million. However, the CET1 requirement would only decrease by CHF 40 million (40% of CHF 100 million).
- As a result, the Parent Bank's headroom above its CET1 capital requirement would reduce on a net basis by CHF 60 million (CHF 100 million – CHF 40 million).

(26) The Draft Proposal concerns the treatment of participations in foreign subsidiaries in the standalone capital-adequacy calculation for a Parent Bank. Under this proposal, risk weighting for such participations would be discontinued and replaced with a regulatory capital deduction approach. Under the regulatory capital deduction approach, participations in foreign subsidiaries would not count as regulatory capital; however, they would also no longer be subject to risk weightings.[13]

(27) As described in its Report on Banking Stability[14], the Federal Council outlines the following as its *intended outcomes* from this Draft Proposal.

- Ensure "*that capital that is passed on to subsidiaries cannot simultaneously be used as capital for other risks at the level of the Parent Bank, or only to a much smaller extent*".
- Thereby, increase "*the strategic room for manoeuvre in a crisis, as participations that have lost significant value can be sold if necessary, without serious consequences for the Parent Bank's capital*".
- Create "*incentives for banks with complex structures to reduce internal interconnectedness and, if necessary, to adjust the group structure. Such adjustments further increase the likelihood of a restructuring being successful. This achieves the effect that the [Too-Big-To-Fail] regime was aiming for, especially with a targeted increase regarding foreign participations*". This "*could also mitigate the impact of any ring-fencing measures imposed by foreign authorities on the Parent Bank's capital*".

Implication of the Draft Proposal

(28) The Draft Proposal being considered by the Federal Council does not correspond to a direct increase of the capital ratio requirements of the Swiss Parent Bank (or wider-Group) i.e., as a percentage of risk weighted assets. Rather, it seeks to change what constitutes eligible regulatory capital. In doing so, it will reduce the amount of recognised going-concern capital at the Swiss Parent Bank level for regulatory capital purposes while simultaneously lowering the amount of risk weighted assets. As such, it is noted that the impact of Draft Proposal on the regulatory capital position of UBS AG does not reflect a change in the underlying

[13] The Draft Proposal is mentioned as an option in the "Federal Council report on banking stability", p. 65 (Apr 2024 – Eng version)
[14] "Federal Council report on banking stability", p. 65 (Apr 2024 – Eng version)

financial soundness or stability of UBS AG; rather it reflects a change in methodology and, consequently, the amount of regulatory capital required at UBS AG (Standalone).

(29) This has a de facto effect of raising the level of capital required at the Parent Bank once the deduction approach requires a higher capital backing of foreign subsidiaries than what is required under the risk-weighted approach.

(30) An illustration of the intention of Draft Proposal is provided in Figure 5.

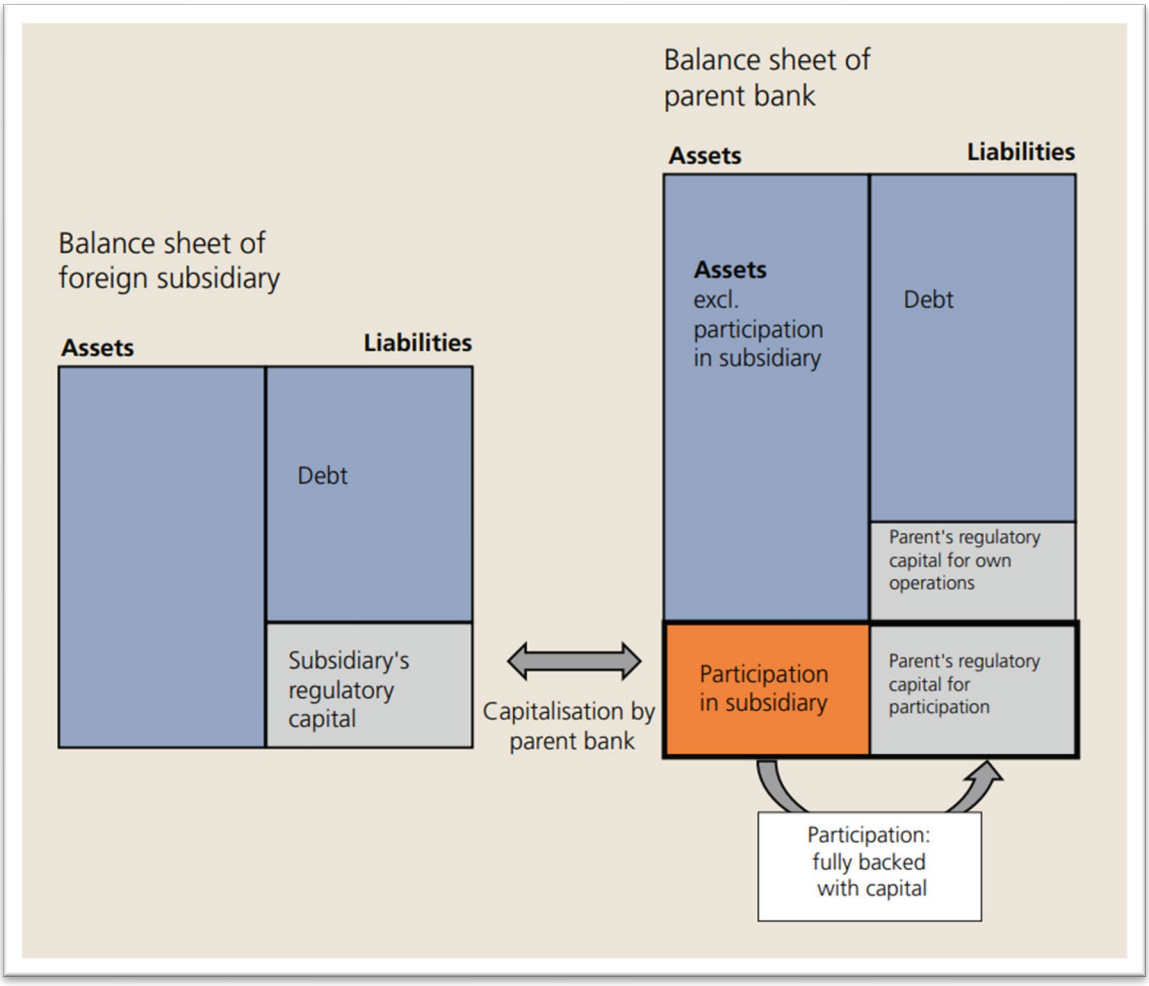

Figure 5: Illustration of the impact of the Draft Proposal. "Federal Council report on banking stability", p. 58 (Apr 2024 – Eng version)

Capital at the UBS Parent Bank

(31) The aggregate of the local CET1 requirements might exceed the consolidated Group requirements due to, for example:

- Intra-group transactions which give rise to standalone capital requirements but being eliminated on consolidation do not give rise to any consolidated capital requirement.
- Local variations in the rules that determine the capital requirement in foreign jurisdictions exceeding the requirements for the same business in Switzerland, e.g., driven by local Pillar 2-, Pillar 1- capital requirements or by local stress tests.

(32) Where this occurs, double leverage arises as the Parent will tend to optimize its capital reserves and it will choose only to hold the capital sufficient to ensure compliance with the consolidated capital requirement and to enable its subsidiaries to meet the local capital requirements in part by raising debt that it down-streams to the subsidiaries as capital.

(33) A commonly used (e.g., by equity analysts and regulators) definition of double leverage ratio is the ratio of Parent common equity capital investment in its subsidiaries, divided by its own common equity capital. Table 1 below, shows the calculation of this ratio at 86.7%, i.e., the UBS Parent Bank total equity exceeds the quantum of the participations in (domestic and foreign) subsidiaries. The amount of that excess is the quantum of own capital, i.e., capital not reliant on value from the participations in subsidiaries. However, the ratio is limited in its usefulness when assessing the double leverage of a Parent Bank such as UBS AG (Standalone) as it is not a 'clean holding company', i.e., it is a holding company which also conducts its own banking operations. As such, the last three lines of Table 1 compare this excess / own capital (circa $11.2 billion) to the RWA's (circa $262.6 billion) arising from the banking business that the Parent Bank conducts directly from its own balance sheet, i.e., not via a subsidiary.

$'m	Ref.	4Q24
Participations in subsidiaries	**A**	73,103
Parent Bank total equity	**B**	84,308
Subsidiaries leverage ratio	**C = A/B**	**86.7%**
Parent Bank equity in excess of participations in subsidiaries	**D = B-A**	11,205
RWAs excluding participations in subsidiaries	**E**	262,645
Coverage (%)	**F = D/E**	**4.3%**

Table 1: Double Leverage Ratio – UBS AG (Standalone)
Source: UBS AG Standalone Financial Statements and Regulatory Information for the year ended 31 December 2024, p. 9; Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups, pp. 107-109; A&M analysis.

(34) Table 1 above illustrates that UBS AG is both a holding company of participations in subsidiaries and conducts its own on-balance sheet banking business. Table 2 below represents a more appropriate way to quantify double leverage from a regulatory capital point of view. It shows the quantum of CET1 capital required for the Parent Bank's own RWAs (circa $262.6 billion) assuming a 12.5% CET1 ratio and the respective coverage excluding the implied regulatory capital valuation of the foreign and domestic subsidiaries. It is important to note that Table 2 is illustrative in nature as publicly available information on the composition of the Parent Bank's CET1 is limited and does not include information such as regulatory capital adjustments.

$'m	Ref.	4Q24
RWAs for participations in Switzerland-domiciled subsidiaries (2028 L-T)	**A**	90,458
2028 fully applied risk weights	**B**	250%
Implied regulatory capital value	**C = A/B**	**36,183**
RWAs for participations in foreign-domiciled subsidiaries (2028 L-T)	**D**	202,623
2028 fully applied risk weights	**E**	400%
Implied regulatory capital value	**F = D/E**	**50,656**
Combined regulatory capital value for participations in subsidiaries	**G = C+F**	**86,839**
CET1 Capital of Parent Bank	**H**	75,051
Less: combined regulatory capital value for participations in subsidiaries	**G**	(86,839)
CET1 after deduction of participations in subsidiaries	**I = H+G**	**(11,788)**
Parent Bank's own RWAs	**J**	262,645
CET1 to meet a target of 12.5% of own RWAs	**K**	32,831
CET1 after deduction of participations and of target 12.5% CET1	**L = I-K**	**(44,619)**

Table 2: Adjusted CET1 Capital Ratio for Parent Bank's own capital and RWAs – UBS AG (Standalone)
Source: A, B, D, E, H, J: Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups, pp. 107-109; A&M analysis.
Notes: J & K - are derived by taking 4Q24 UBS AG (Standalone) RWAs ($507,964m and subtracting the RWA of investments in domestic and foreign subsidiaries ($83,221m and $162,098m, respectively) this gives Parent Bank's RWAs excluding its investments in domestic and foreign subsidiaries ($262,645m). $262,645m is then multiplied by an assumed CET1 ratio target for UBS AG (Standalone) (12.5%) which results in CET1 capital of $32,831m.

2.2. Approach and methodology

2.2.1. Entities in scope of the Draft Proposal

(35) The Draft Proposal applies to all Swiss Systemically Important Banks (SIBs), i.e., UBS, Raiffeisen Group, PostFinance and ZKB. Based on publicly available information the Draft Proposal would only affect UBS (as also noted in the Report on Banking Stability[15], which states: "*focusing on foreign participations, [the Draft Proposal] effectively targets SIBs with high exposures abroad, i.e. Parent Banks of G-SIBs*").

(36) As shown in the simplified legal structure of UBS Group below, the entity affected by the Draft Proposal would be UBS AG (Parent Bank), as it is the Swiss-based entity owning 100% of the international legal entities (or 98% in the case of CSI).

[15] "Federal Council report on banking stability", p.65 (Apr 2024 – Eng version)

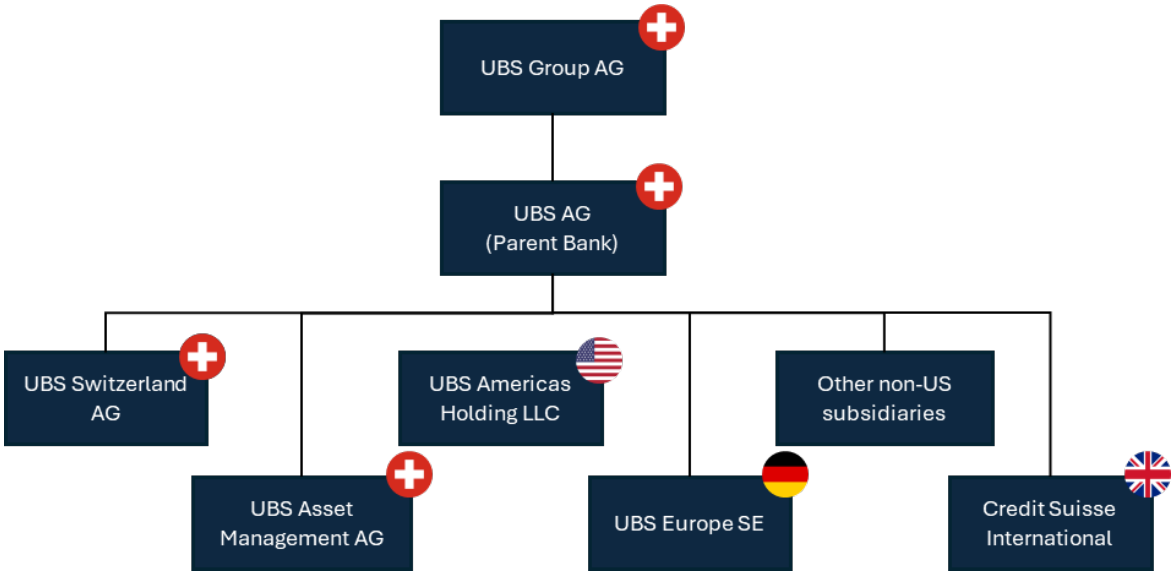

Figure 6: UBS Group simplified legal entity structure. Detailed legal entity structure see Appendix Section 8.1
Source: "Annual Report 2024 - UBS Group" p.14.

(37) In the following chapters we will assess the impact of the Draft Proposal on the Swiss Parent Bank.

2.2.2. Approach

(38) In accordance with our Mandate, in this Report we provide our outside-in, independent expert opinion on the financial and economic impact of changes to the Swiss capital requirements for foreign subsidiaries of G-SIBs. For the purpose of the analysis, we have established the following four-step approach:

- Step one: calculations of required CET1.
- Step two: calculations of the cost of CET1.
- Step three: actions and consequences.
- Step four: analysis of whether the intended benefits are likely to be achieved.

2.2.2.1. Step one: calculating required CET1 - see Section 4

(39) In Step one, we estimate the extra CET1 capital UBS Parent Bank (on a standalone basis) would need to hold if the Draft Proposal were to come into force immediately. We do this relative to the 2028 look-through RWAs as disclosed by UBS in its end-2024 Pillar 3 report.

(40) We use three approaches to calculate this:

- **First Approach**: We calculate the increase in CET1 required under the Draft Proposal compared to the current minimum RWA-based CET1 requirement excluding the countercyclical capital buffer (CCyB), (10%). This approach calculates the amount by which the capital requirement attributable to the participations in foreign subsidiaries would increase.
- **Second Approach**: We estimate the CET1 capital gap as the amount by which the CET1 capital at end-2024 held by UBS AG (Standalone) would need to increase for it to exactly meet the proposed new Pillar 1 capital requirement described in the First Approach. This

approach differs from the first approach because at end-2024 UBS AG (Standalone) held excess CET1 capital above the amount required by the Pillar 1 capital requirement then applied.

- **Third Approach**: We assume UBS AG will target a specific (standalone) CET1 ratio range (e.g., between 12.5% and 13.5%) which is above the minimum requirement and calculate the additional CET1 needed under this assumption. This range is based on the current 2028 look-through CET1 capital ratio for UBS AG (Standalone) of 13.5% and the following comment made by UBS *"For the foreseeable future we expect UBS AG to operate with a standalone CET1 capital ratio in the range of 12.5% to 13%, around 2.5 points above the current regulatory minimum, on a fully applied basis. This guidance factors in the effects of our on-going integration efforts".*[16]

(41) The first two approaches differ in their assumptions about how much of UBS's excess CET1 capital above the minimum requirement can be used to meet the new requirements. The first approach assumes that none of the excess CET1 would be available, and the second approach assumes all would be available. The third approach assumes UBS will maintain a specific CET1 ratio above the minimum requirement, and we calculate the impact of the Draft Proposal based on this target, using 12.5% and 13.5% as a starting point. We also present alternative calculations based on various percentages above and below this range in the appendix.

(42) Since an immediate implementation of the Draft Proposal might not be realistic, we also calculate the impact of phased implementation over six and nine years. For consistency, we assume UBS's balance sheet remains unchanged from its 2024 position in these scenarios.

2.2.2.2. Step two: calculations of the cost of CET1 - see Section 4

(43) For each of the CET1 calculations made at Step one, we estimate the annual cost of the additional CET1 required. In doing so, we assume that the size of the standalone balance sheet does not increase. That is for each $1 in CET1 raised $1 of either debt or AT1 is retired.

(44) As a result, the calculation is driven by (1) the quantum of the additional CET1 required and (2) a comparison of the rate of return investors demand on CET1 as compared to debt instruments and/or AT1. We use the Step one calculations as our source for item (1), and for item (2) we derive estimates from the following sources.

- **CET1**: the estimated cost of equity used is the FY25 consensus estimate for UBS Group AG, published by UBS on 17 February 2025.
- **Debt instruments**: the after-tax cost of debt is estimated by taking the following information from the UBS Group AG 2024 Annual Report: (interest expense on debt issued divided by average total debt issued at amortised cost) multiplied by one minus the structural tax rate (23%).
- **AT1**: the weighted average coupon interest rate of outstanding UBS AG Group AT1 instruments as at 12 February 2025 multiplied by one minus the structural tax rate (23%).

(45) The cost calculations described above implicitly assume that the rate of return investors demand would not change due to the implementation of the Draft Proposal. While this

[16] https://webcast.swisscom.ch/csr/#/webcast/6786242be85a07d4ff1d1ee2/en

assumption may be realistic for a small increase in CET1, it is unlikely to hold true for the significant increase in CET1 contemplated in the Draft Proposal.

(46) Typically, replacing a large quantum of debt with equity in the financing of a balance sheet reduces the riskiness of the remaining debt instruments. This, at least in theory, would reduce the rate of return that investors would demand for those debt instruments.

(47) In economic theory, the Modigliani-Miller theorem ("M-MT") – also known as capital-structure irrelevance principle – posits that all other things being equal, a firm's aggregate cost of debt and equity is invariant as the mix between debt and equity is varied. There are valid reasons to believe that M-MT is not fully true either for all firms (e.g., due to interest on debt being tax deductible but dividends on equity not) and especially for banks (e.g., due to the perceptions of investors as to the actions the central bank and/or the Government might take to rescue a failing SIB). However, for the reasons given in the previous paragraph, it appears reasonable to assume that M-MT is at least partially true.

(48) As a proxy for a partial M-MT consequence of the Draft Proposal, we also present alternative cost calculations that assume a cost saving on the remaining debt instruments, i.e., those not replaced by the newly raised CET1. We base this on the assumption that the increased CET1 results in the credit rating for the remaining debt of the UBS Parent Bank improving one notch from S&P A+ to AA-.

2.2.2.3. Step three: actions and consequences - see Section 5

(49) Step two above calculates costs but leaves unaddressed two interrelated and important questions which are now discussed as Step three.

- What actions might UBS take to reduce or avoid the costs, and what might the consequences of those actions be for UBS's stakeholders and Switzerland's finances, society and economy?
- Which of UBS's stakeholders would ultimately bear the costs: shareholders, depositors, borrowers, employees, etc.?

(50) This step primarily comprises a qualitative discussion but also makes necessary one additional alternative cost calculation. That calculation assumes that over the six or nine year phased implementation approach, UBS progressively reduces the quantum of its participations in foreign subsidiaries. This might be either by repatriating some capital from those subsidiaries and/or by a partial sale of those subsidiaries.

(51) The qualitative discussion contemplates the following as possible actions:

- UBS Group AG raising additional equity which it down-streams to the Parent Bank as CET1.
- Capital retention / reduction of distribution to shareholders through dividends or share-buybacks.
- The repatriation of excess capital from subsidiaries to Parent Bank, including taking actions that increase the excess, e.g., scaling back or selling business activities within a foreign subsidiary and/or selling one or more of its business divisions.
- Decision to de-risk / de-leverage. This might be in the Parent Bank itself and so leading to a reduction in its risk-weighted assets, or it might be in a Swiss or foreign subsidiary freeing up capital that might then be repatriated to the Parent Bank.

- Increasing revenue in ways that do not lead to a commensurate increase in risk weighted assets, thereby increasing profits available to be distributed without a corresponding increase in the capital requirements.
- Cutting costs in ways that do not lead to a corresponding fall in revenue, i.e., by increasing operational efficiencies.
- Changing the group structure through actions such as selling foreign subsidiaries to a third party or moving the "headquarters" outside of Switzerland.

2.2.2.4. Step four: analysis of whether the intended benefits are likely to be achieved - see Section 6

(52) This step comprises a qualitative discussion of whether, taking account of plausible actions from UBS in response to it (discussed in Step three above), the Draft Proposal is likely to achieve its intended benefits. It discusses the incentives that the Draft Proposal might create for UBS and its stakeholders, especially in the context of any future crisis period.

2.2.2.5. Overview of stakeholders in which impact is assessed

(53) In accordance with our Mandate, both in Step three and four, we have assessed impacts on the following stakeholders: UBS Parent Bank financials, shareholders of UBS Group (i.e. UBS Group AG), employees of UBS, depositors and borrowers of UBS, other counterparties of UBS (mostly financial institutions), and Switzerland's finances, society and economy.

2.3. Limitations with regard to the sources of the analysis

(54) In accordance with our Mandate, this report has been prepared exclusively on the basis of publicly available information and of information received from the State Secretariat for International Finance. We have had no interactions with the affected bank(s) to draw conclusions on the impacts from the bank's non-disclosed viewpoint. Likewise, we have not surveyed potentially affected stakeholders. Hence, this expert opinion report comes with corresponding significant limitations.

(55) We have not conducted own statistical economic surveys or analyses; we rely instead on publicly available studies that we quote and refer to in this report. Our cut-off date for processing data was 25 April 2025. At this time, the latest available financial information, including Pillar 3 reports for UBS was for the quarter and year ended December 2024. We have also not conducted specific scenario or sensitivity analysis due to many conflicting variables; the assessment has been conducted on the basis of all other things being equal.

(56) Our report is an analysis and synthesis of public information only, including but not limited to:

- The Swiss Federal Council's Banking Stability Report dated 10 April 2024;
- UBS's public disclosures;
- Public disclosures of G-SIB peers;
- Relevant cost benefit analysis undertaken by recognised institutions; and
- Relevant authoritative literature and relevant academic literature.

As such, an important degree of information asymmetry exists between A&M, the affected bank(s), and potentially affected stakeholders. For this reason, our view may differ to that of the affected bank(s), its stakeholders and other market participants. Examples of information

asymmetry include items such as detailed regulatory capital composition, Pillar 2 capital requirements and internally calculated cost of debt and equity for UBS AG.

3. Background information on UBS Parent Bank Capital at 4Q24

3.1. Overview of UBS Parent Bank capital position under the current regime

(57) This section provides an overview of the UBS Parent Bank capital position as at 4Q24. As outlined in Section 2.1.1 of this report, UBS Parent Bank is currently subject to a phase-in of a 400% risk weighting of its investments in foreign subsidiaries. As per 4Q24, foreign-domiciled subsidiaries were risk weighted at 320%[17] and the weighting will increase by 20 percentage points per year until 2028 to reach 400%[18]. This corresponds to an approximate Tier 1 capital backing of foreign participations of 57% by 2028, comprising a minimum of 40% CET1. The corresponding computation is included in Section 3.2.

(58) The risk weighted capital metrics as presented by UBS throughout this report are both as the current phase-in requirements for participations in domestic and foreign subsidiaries and on a 'look through' basis, which applies the 2028 fully applied risk weights for domestic and foreign subsidiaries.

(59) As at 4Q24, UBS AG (Standalone) had CET1 capital of $75bn and Tier 1 (going concern) capital of $91bn.

$'m	4Q24
Common Equity Tier 1 Capital (CET1)	75,051
Additional Tier 1 Capital (AT1)	15,830
Total going-concern capital	**90,882**

Table 3: Going-concern Capital Position – UBS AG (Standalone)
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109

(60) As at 4Q24, UBS AG (Standalone) had $508bn in total RWAs based on the current phase-in risk weights. $162bn of the $508bn RWAs (approximately 32%) are related to investments in foreign subsidiaries. When applying the full 2028 risk weightings for participations in domestic and foreign subsidiaries, RWAs would increase to $556bn, of which $203bn are related to participations in foreign subsidiaries (approximately 36%).

[17] "Pillar 3 Report - UBS Group and significant regulated subsidiaries and sub-groups", p. 108 (Dec 2024)
[18] "Verordnung über die Eigenmittel und Risikoverteilung der Banken und Wertpapierhäuser (Capital Adequacy Ordinance, CAO)", Anhang 4[293]

$'m	4Q24
Total risk-weighted assets (RWA) (phase-in)	**507,964**
of which: investments in Switzerland-domiciled subsidiaries	83,221
of which: investments in foreign-domiciled subsidiaries	162,098
Total risk-weighted assets (RWA) (2028 look-through)	**555,726**
of which: investments in Switzerland-domiciled subsidiaries	90,458
of which: investments in foreign-domiciled subsidiaries	202,623
Leverage exposure	**899,348**

Table 4: Risk Weighted Assets – UBS AG (Standalone)
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109

(61) As at 4Q24, the CET1 capital ratio of UBS AG (Standalone) was 14.8% under the phase-in risk weights and 13.5% under the look-through risk weights. The going-concern capital ratio was 17.9% and 16.4% respectively.

%	Phase-in	2028 - LT
CET1 capital ratio	14.8%	13.5%
Going-concern capital ratio	17.9%	16.4%
CET1 leverage ratio	8.3%	8.3%
Going-concern leverage ratio	10.1%	10.1%

Table 5: Capital ratios – UBS AG (Standalone)
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups" pp. 107-109

(62) As per 4Q24, USB AG (Standalone) had a CET1 capital ratio minimum requirement of 10.0% and a going-concern capital ratio requirement of 14.3% excluding the CCyB. For a majority of the analyses presented in this report, references to the Pillar 1 minimum CET1 and going-concern requirement exclude the CCyB.

%	4Q24
CET1 capital requirement	10.3%
CET1 capital requirement (ex. CCyB)	**10.0%**
Maximum Additional Tier 1 capital	4.3%
Going-concern capital requirement	14.6%
Going-concern capital requirement (ex. CCyB)	**14.3%**

Table 6: Minimum risk-weighted capital requirements – UBS AG (Standalone)
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups" pp. 107-109

(63) We note that the above presented capital requirements correspond to the Pillar 1 minimum requirements and exclude any non-public Pillar 2 add-ons imposed by FINMA or UBS. Further, the minimum capital requirements applicable to UBS AG (Standalone) may be subject to change, this would therefore impact the analyses presented in this report.

(64) Under the current capital regime, UBS AG (Standalone) reported $23 billion in excess of its minimum CET1 capital requirements as of 4Q24, equivalent to 10.3% of the entity's RWAs, as outlined in UBS's Pillar 3 Report dated December 31, 2024. This surplus decreases to $18 billion when the 2028 look-through risk weightings for investments in subsidiaries are applied.

$'m	4Q24
Excess CET1 capital above Pillar 1 (phase-in)	22,934
Excess CET1 capital above Pillar 1 (2028 look-through)	18,034
Excess Going-concern capital above Pillar 1 (phase-in)	16,922
Excess Going-concern capital above Pillar 1 (2028 look-through)	9,968

Table 7: Capital excess above Pillar 1 minimum requirements – UBS AG (Standalone)
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109

(65) We note that the capital buffers in Table 7 expressed per "2028 look-through" are all other factors are equal, (e.g. no further capital repatriations or valuation adjustments of subsidiary values).

(66) According to UBS AG's Standalone's audited financial statements for 2024, UBS AG received $6.3bn of dividends in 2024 from its subsidiaries and participations. According to UBS Group's 2024 Annual Report, UBS AG's BoD proposes to distribute an ordinary dividend distribution of $6.5bn for the year 2024 and further proposes an appropriation of an additional $6.5bn from its voluntary earnings reserve to a special dividend reserve. A decision on the special dividend payment is intended to be made at an Extraordinary General Meeting in the second half of 2025, considering any proposed requirements from Switzerland's ongoing review of its capital regime.[19] The proposed ordinary dividend distribution represents approximately 8.7% of UBS AG (Standalone's) eligible CET1 capital per 4Q24. We note that amounts reserved for dividend distributions are typically excluded from recognition as CET1 for regulatory capital purposes. Further, the UBS Group 2024 Annual Report also states that UBS intends to repurchase $3bn of outstanding shares during 2025. [20]

3.2. 2028 look-through capital backing of foreign subsidiaries at UBS AG (Standalone) under the current capital regime

(67) Based on the current minimum CET1 capital requirement of 10.0% and a going-concern capital requirement of 14.3%, under a 400% risk weighting by 2028, approximately 57% of the regulatory valuation of the foreign participations will be backed by going-concern capital, including a minimum of 40% of CET1 capital.

%		
CET1 minimum capital requirement (4Q24)	**A**	10.0%
Going-concern minimum capital requirement (4Q24)	**B**	14.3%
2028 risk weighting for foreign participations (2028 L-T)	**C**	400%
CET1 capital backing required (2028 L-T)	**A*C**	**40.0%**
Going concern capital backing required (2028 L-T)	**B*C**	**57.2%**

Table 8: 2028 capital backing of foreign participations under RWA approach
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109; A&M Analysis

[19] UBS AG Standalone financial statements and regulatory information for the year ended 31 December 2024, pp. 18, 44.
[20] Annual Report 2024 – UBS Group, p. 167

3.3. Implied regulatory capital valuation of investments in foreign subsidiaries

(68) Based on the 2028 risk weightings of foreign subsidiaries, we derive an implied regulatory capital value for foreign subsidiaries. The indicative eligible capital for investments in foreign subsidiaries was $50.7bn per 4Q24.

$'m	Ref.	4Q24
RWAs for investments in foreign-domiciled subsidiaries (2028 L-T)	**A**	202,623
Risk weighting (fully applied 2028)	**B**	400%
Implied regulatory capital valuation	**C = A/B**	50,656

*Table 9: Implied regulatory capital valuation of foreign subsidiaries – UBS AG (Standalone)**
** Based on 2028 look through RWAs and 400% risk weighting*
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109

4. Step one and two: Calculations of the required CET1 and its cost

(69) We are firstly presenting the estimated impact of the Draft Proposal on the CET1 capital position of UBS AG (Standalone) on the hypothetical assumption that it would be implemented immediately in full. Subsequently, we present the impact considering variables such at the CET1 capital ratio required/targeted by UBS AG and if the Draft Proposal will be phased in.

(70) The analyses are prepared using a constant balance sheet assumption. In this regard, we assume that an increase in equity is offset by corresponding reductions in AT1 instruments and debt.

4.1. Impact on UBS AG (Standalone) capital position

(71) Under the proposed 100% deduction of the implied eligible capital for the participations in foreign subsidiaries, as described in Section 2.1.2, UBS AG (Standalone) would have adjusted CET1 capital and Going-concern capital of $24.4bn and $40.2bn based on 4Q24 actuals. Simultaneously, RWAs would reduce to $353.1bn from the exclusion of the risk-weighted value of investments in foreign subsidiaries. This is based on the fully applied risk-weightings for participations in domestic and foreign subsidiaries as at year-end 2024.

(72) The following quote is taken from UBS's Full-year and fourth quarter 2024 Results and Investor update held on 4 February 2025: *"For the foreseeable future we expect UBS AG to operate with a standalone CET1 capital ratio in the range of 12.5% to 13%, around 2.5 points above the current regulatory minimum, on a fully applied basis. This guidance factors in the effects of our on-going integration efforts […] This target capital level also accounts for planned dividends and capital from subsidiaries. During the fourth quarter, 13 billion [USD] of capital was repatriated to the Parent Bank from its subsidiaries the UK and the US. Of the total, 6 billion [USD] was paid up from UBS Americas Holding. The UK subsidiary, Credit Suisse International repatriated 7 billion [USD] with around 5 billion [USD] of additional distributions expected as we continue to unwind or transfer its positions, subject to customary regulatory approval. As Sergio mentioned, it's important to note that we planned for this distribution of capital from subsidiaries since the acquisition. As such, it forms part of our capital return ambitions, while maintaining our target capital ratios at both the Group level and the Parent Bank. Therefore, broadly speaking, new capital requirements from Too Big To Fail imposed at the Parent-Bank level would need to be funded by a higher retention of profits, consequently leading to an overshooting of capital at the Group-level and resulting*

in a lower overall return on CET1 capital, all other things being equal."[21]

(73) In respect of these announced future actions (i.e., the 12.5% - 13.0% CET1 range and the additional $5 billion distribution of capital from subsidiaries) caution is needed in taking them into account to reduce the costs of the proposed modifications to the capital regime as the actions are both (1) future and (2) possibly the amounts, timings, and form of these actions might have been influenced by a contemplation of the possible changes to the capital regime, e.g., as they were discussed in the Swiss Federal Council Report on Banking Stability issued in April 2024 (also known as the TBTF Report). This is not clear to us, but we do know that UBS had planned for the distribution of capital from subsidiaries since the acquisition of Credit Suisse. Also, the quantum, if any, of the consequential reduction in the capital gaps in respect of the $5 billion might depend on how capital is extracted from the foreign subsidiaries.

(74) In light of UBS's intention to repatriate a further estimated $5bn to UBS AG (Standalone) from Credit Suisse International, subject to regulatory approval. We have reflected this in the 4Q24* column in Table 10. Capital repatriated from subsidiaries has the effect of lowering the regulatory capital value (and deduction) due to its reduced carrying value on UBS AG (Standalone's) balance sheet. For the purposes of below, we assume that RWAs are unchanged, which implicitly assumes that UBS AG would reinvest the repatriated capital in zero risk-weighted assets. That implicit assumption is solely made to enable the full potential capital saving to be calculated as an end-point for use in presenting the range of the possible actual capital savings. Please note, that for our analysis under the three approaches outlined below, we utilise the implied regulatory capital valuation of $50.6bn based on the 4Q24 actual position. However, we note that if the $5bn were retained within UBS AG (Standalone), the new CET1 capital required to would effectively reduce by $5bn.

$'m	4Q24 (A)	4Q24 *
Common Equity Tier 1 Capital (CET1)	75,051	75,051
Less: Implied regulatory capital valuation of foreign participations	*(50,656)*	*(45,656)*
Adjusted CET1 capital	**24,395**	**29,395**
Going-concern capital	90,882	90,882
Less: Implied regulatory capital valuation of foreign participations	*(50,656)*	*(45,656)*
Adjusted going-concern capital	**40,226**	**45,226**
Total risk weighted assets (2028 L-T)	555,726	555,726
Less: investments in foreign-domiciled subsidiaries (2028 L-T)	*(202,623)*	*(202,623)*
Adjusted RWAs	**353,103**	**353,103**

Table 10: Adjusted CET1 Capital and RWAs – UBS AG (Standalone)
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109; A&M analysis

4.2. Estimated gap to 100% CET1 capital backing of foreign participations and associated cost

(75) The applicable CET1 capital ratio requirement impacts the degree by which the total regulatory capital valuation for foreign participations is covered by actual CET1 capital upon the introduction of the Draft Proposal. In this section, we estimate gap to 100% CET1 capital backing of foreign participations and associated costs based on three approaches as

[21] https://webcast.swisscom.ch/csr/#/webcast/6786242be85a07d4ff1d1ee2/en

introduced in Section 2.2.2.1

First approach

(76) In our initial scenario presented below; we have utilised the minimum CET1 capital requirement applicable to UBS AG (Standalone) as per 4Q24 (10.0%). Using the 10.0% minimum CET1 capital requirement, we have estimated the required CET1 capital to cover the full deduction of the valuation of foreign subsidiaries using the fully applied 2028 look-through risk weightings of foreign subsidiaries. This results in a minimum CET1 capital requirement of $20.2bn per 2028 fully applied RWA. Upon deducting the full regulatory capital valuation of foreign subsidiaries ($50.7bn), ***an estimated additional $30.4bn of CET1 capital is required to back the value of participations to 100%*** **with an estimated annual cost of $1.7bn.**

$'m	Ref.	2028 (L-T)
Total risk weighted assets of foreign subsidiaries (2028 L-T)	**A**	202,623
Pillar 1 minimum CET1 requirement (4Q24)	**B**	10.0%
Required CET1 capital (2028 L-T)	**C = A*B**	**20,262**
Implied regulatory valuation of participations	**D**	50,656
Additional capital required for 100% backing	**E = C-D**	**30,393**
Pillar 1 minimum CET1 requirement (4Q24)	**B**	10.0%
Pillar 1 going-concern capital requirement (4Q24)	**F**	14.3%
AT1 maximum requirement	**G = F-B**	**4.3%**
Retirement of AT1 required for foreign participations (2028)	**H = A*G**	8,713
Retirement of debt	**I = E-H**	21,681
Amount of AT1 and debt replaced with equity	**E**	**30,393**
Consensus 2025 cost of equity	**J**	*10.6%*
Estimated after tax cost of debt	**K**	*4.8%*
Estimated after tax cost of AT1	**L**	*5.1%*
Annual cost of new equity	**M = E*J**	3,222
Less: reduction in debt-servicing costs	**N = K*I**	(1,038)
Less: reduction in AT1-servicing costs	**O = L*H**	(445)
Net annual cost of new equity	**P = M+N+O**	**1,738**

Table 11: Gap to 100% capital backing of foreign participations at 10.0% CET1 requirement
Sources: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109; "UBS Group 2024 Annual Report", pp. 70, 295, 311; "UBS Group Consensus Report (17 Feb 2025)"; A&M analysis

Guidance notes:

J: The estimated cost of equity used is the FY25 consensus estimate for UBS Group AG, published by UBS on 17 February 2025.

K: After tax cost of debt is estimated by taking the following information from the UBS Group AG 2024 Annual Report: (interest expense on debt issued divided by average total debt issued at amortised cost) multiplied by one minus the structural tax rate (23%).

L: Weighted average coupon interest rate of outstanding UBS AG Group AT1 instruments (12 February 2025) multiplied by one minus the structural tax rate (23%).

(77) The 4Q24 AT1 requirement for UBS AG (Standalone) was 4.3%. The corresponding amount of AT1 allocated to the 2028 risk weightings of foreign participations is $8.7bn. We assume that these amounts would be called at the first available date and not be replaced. Additionally, it is assumed that $21.7bn of debt would be retired. On this basis, the increase in costs associated with new equity, will be partially offset by a reduction in AT1 and debt servicing costs.

(78) The actual after-tax cost of AT1 and debt would likely vary each year due to the actual tax rate applicable to UBS and the year-on-year changes to debt interest rates. For the purposes of the above analysis, we have used the structural tax rate of UBS of 23% as per the 2024 UBS Group Annual Report.

(79) The annual debt and equity costs are influenced by multiple factors, including inter alia: leverage, correlation to the market (beta in a CAPM model), size factor (Fama-French Model) and those expressed above related to the M-MT.

Second approach

(80) In our second analysis outlined in Table 12 below, we estimate the CET1 capital that UBS AG (Standalone) requires in order to reach the minimum Pillar 1 CET1 capital ratio requirement of 10.0%, whereby the excess CET1 capital already held above the 10.0% minimum requirement is factored in. The amount of new CET1 capital required to cover the gap reduces to $10.9bn. We assume that AT1 and debt would be replaced by new equity.

$'m	Ref.	2028 (L-T)
CET1 capital (4Q24)	**A**	75,051
Less: valuation of participations (100%)	**B**	*(50,656)*
Net CET1 capital	**C = A-B**	**24,395**
Pillar 1 minimum CET1 requirement (4Q24)	**D**	10.0%
RWAs excluding foreign subsidiaries (2028 L-T)	**E**	353,103
Minimum CET1 capital required	**F = D*E**	**35,310**
New CET1 capital required for minimum requirement (10.0%)	**G = F-C**	**10,915**
Retirement of AT1 required for foreign participations (2028)	**H**	8,713
Retirement of debt	**I**	2,202
Amount of AT1 and debt replaced with equity	**J**	**10,915**
Consensus 2025 cost of equity	**K**	*10.6%*
Estimated after tax cost of debt	**L**	*4.8%*
Estimated after tax cost of AT1	**M**	*5.1%*
Annual cost of new equity	**N = G*K**	1,157
Less: reduction in debt-servicing costs	**O = I*L**	(105)
Less: reduction in AT1-servicing costs	**P = H*M**	(445)
Net annual cost of new equity	**Q = N+O+P**	**606**

Table 12: Net CET1 capital required at 10.0% CET1 capital ratio
Source: "Pillar 3 Report, 31 December 2024, UBS Group and significant regulated subsidiaries and sub-groups", pp. 107-109; "UBS Group 2024 Annual Report", pp. 70, 295, 311; "UBS Group Consensus Report (17 February 2025)"; A&M analysis

(81) If UBS were to maintain an equal balance sheet size, covering the gap to the minimum CET1 capital requirement with excess CET1 capital above the 10.0% requirement and replacing existing debt with new equity, would result in an **estimated $10.9bn of new CET1 capital with an estimated annual cost of $0.6bn.**

Third approach

(82) The third approach is based on an assumed range of possible target CET1 capital ratios ranging between 12.5% and 13.5%. The 12.5% target is informed by the Full-year and fourth quarter 2024 Results and Investor update held on 4 February 2025 and the 13.5% target is based on the 2028 look-through CET1 capital ratio of UBS AG (Standalone), published in the 2024 Pillar 3 Report. This 13.5% ratio is based on the actual CET1 capital position per 4Q24 and using the fully applied 2028 risk weights for participations in domestic and foreign subsidiaries.

$'m	Ref.	12.5%	13.5%
CET1 capital (4Q24)	**A**	75,051	75,051
Less: valuation of participations (100%)	**B**	*(50,656)*	*(50,656)*
Net CET1 capital (4Q24)	**C = A+B**	**24,395**	**24,395**
RWAs excluding foreign subsidiaries (2028 L-T)	**D**	353,103	353,103
Target CET1 ratio	**E**	12.5%	13.5%
CET1 capital required for Target CET1 ratio	**F = D*E**	**44,138**	**47,687**
CET1 capital gap to Target CET1 ratio	**G = F-C**	**19,743**	**23,291**
Pillar 1 minimum CET1 requirement (4Q24)	**H**	10.0%	10.0%
Pillar 1 going-concern capital requirement (4Q24)	**I**	14.3%	14.3%
AT1 maximum requirement	**J = I-H**	**4.3%**	**4.3%**
Retirement of AT1 required for foreign participations (2028)	**K**	8,713	8,713
Retirement of debt	**L = G-K**	11,030	14,579
Amount of AT1 and debt replaced with equity	**G**	**19,743**	**23,291**
Consensus 2025 cost of equity	**M**	*10.6%*	*10.6%*
Estimated after tax cost of debt	**N**	*4.8%*	*4.8%*
Estimated after tax cost of AT1	**O**	*5.1%*	*5.1%*
Annual cost of new equity	**P = G*M**	2,093	2,469
Less: reduction in debt-servicing costs	**Q = L*N**	(528)	(698)
Less: reduction in AT1-servicing costs	**R = K*O**	(445)	(445)
Net annual cost of new equity	**S = P+Q+R**	**1,119**	**1,326**

Table 13: Gap to target CET1 capital ratio under a 100% deduction approach (using a 12.5% and 13.5% CET1 requirement)
Sources: A: Refer to Table 4: Risk Weighted Assets – UBS AG (Standalone); B: "UBS Consensus Report – 17 February 2025", p.2, https://webcast.swisscom.ch/csr/#/webcast/6786242be85a07d4ff1d1ee2/en; C: "UBS Group 2024 Annual Report", pp. 70, 295, 311.

(83) Under a 13.5% CET1 capital ratio scenario with foreign subsidiaries risk weighted to 400%, we **estimate a $23.3bn CET1 capital gap** to the target capital ratio of 13.5% with a full deduction of the regulatory value of foreign participations. Under a 12.5% target CET1 capital ratio this reduces, with the estimated capital gap of **$19.7bn**. Note, as outlined in paragraph (72) UBS AG expects a further $5 billion of additional distributions from

subsidiaries to UBS AG, subject to regulatory approval. [22]

(84) If UBS were to maintain an equal balance sheet size, replacing existing AT1 and debt with new equity, we **estimate a net annual cost for new equity between $1.1-1.3bn**.

Variable cost of equity

(85) The calculations so far have been based on the consensus 2025 cost of equity. A large capital raise has the potential influence the cost of equity. Arguably, a large capital raise could result in a safer bank, which, in turn may reduce the cost of equity. According to the Capital Asset Pricing Model, leverage is positively correlated with the cost of equity through the leveraged beta, which measures the relationship between the stock price and market returns. As such, the cost of equity should decrease when leverage decreases. However, in practice a capital raise might sometimes, at least temporarily, also raise the cost of equity, as found by G. Junge and P. Kugler, "*Issuing bank equity and debt can be very costly in the short run, especially if it occurs at an inopportune moment. This may lead to temporary increases of overall funding costs, but not to permanent ones*."[23]

(86) The calculation below illustrates the consequence for our Third Approach calculation of varying the cost of equity either one percentage point down or up.

		Cost of Equity (%)		
CET1 Ratio	**13.5%**			
New equity ($'m)	**23,291**	**9.6%**	**10.6%**	**11.6%**
Estimated annual cost of new equity		**2,236**	**2,469**	**2,702**
Variance (against base-case of 10.6%)		233		(233)
% variance (against base-case of 10.6%)		*9.4%*		*(9.4%)*
CET1 Ratio	**12.5%**			
New equity ($'m)	**19,743**	**9.6%**	**10.6%**	**11.6%**
Estimated annual cost of new equity		**1,895**	**2,093**	**2,290**
Variance (against base-case of 10.6%)		197		(197)
% variance (against base-case of 10.6%)		*9.4%*		*(9.4%)*

Table 14: Illustrative sensitivity analysis on estimated annual cost of new equity
Source: Table 13; A&M Analysis

Variable cost of debt

(87) Finally, the replacement of AT1 and debt funding with new equity could result in cost savings on interest payments associated with AT1 and debt instruments when individual issuances are renewed or renegotiated. This aligns with corporate finance studies building on the M-MT, which suggests that higher equity levels relative to debt may lead debtholders and the market to perceive companies as posing lower risk, thereby reducing the cost of newly issued debt[24]. Before the rollover of AT1 or debt, existing holders would implicitly benefit

[22] https://webcast.swisscom.ch/csr/#/webcast/6786242be85a07d4ff1d1ee2/en
[23] G. Junge and P. Kugler, "Quantifying the Impact of Higher Capital Requirements on the Swiss Economy" (2012)
[24] N.D. Baxter, "Leverage, Risk of Ruin and the Cost of Capital" (1967)

from a reduced perception of risk relative to the original pricing. In the case discussed, when AT1 instruments and debt become eligible for call, reissuance, or renegotiation, UBS AG could potentially realise reductions in interest or coupon payments, all other things being equal. However, the extent to which UBS AG experiences such savings is not solely determined by the increase in equity relative to debt. Other factors influence the potential cost savings UBS AG may be able to realise, such as regulatory requirements, prevailing market conditions, and the bank's overall financial health, which also play a significant role. Therefore, any debt servicing cost savings realised as a result of the Draft Proposal being implemented may not be directly visible.

(88) The tables below provide an illustrative example of the potential annual cost savings on debt financing based on the third approach illustrated above. It is important to note that UBS AG currently holds a relatively higher credit rating compared to its G-SIB peers, reflecting its perceived financial stability and market position. This strong credit rating may be partially attributed to market perceptions of an implicit state guarantee. While UBS does not have an explicit state guarantee from Switzerland, a recent study from the University of Bern suggested that UBS Group AG benefits from lower debt servicing costs due to an implicit state guarantee linked to its "Too Big to Fail" ("TBTF") status[25]. However, UBS, has consistently disputed claims that it enjoys such an implicit guarantee and that its financial strength is independent of any state support.[26] According to our interpretation of the M-MT, as credit quality improves, the marginal utility (savings) decreases. Given UBS's already high credit rating, estimating potential cost savings on its remaining debt with certainty is challenging. As such, the cost savings outlined are intended for illustrative purposes only.

(89) We assume that under both approaches, $8.7bn of AT1 would be retired, representing the maximum allowance of AT1 of 4.3% of RWAs for participations in foreign subsidiaries, leaving $7.1bn outstanding.

$'m	Ref.	12.5%	13.5%
Outstanding AT1 at 4Q24	**A**	15,830	15,830
Less: retirement of AT1	**B**	(8,713)	(8,713)
Net AT1 outstanding	**C = A+B**	**7,117**	**7,117**

Table 15: Reduction in AT1
Sources: A: "Pillar 3 Report, 31 December 2024", "UBS Group and significant regulated subsidiaries and sub-groups", p. 109; B: Table 13 in this report.

(90) Presented below is an excerpt from UBS AG (standalone's) balance sheet and regulatory information as per 31 December 2024. According to the balance sheet, there was $707bn of total liabilities, of which, $122bn were subordinated. UBS AG (standalone) for regulatory capital purposes recognised $92bn in gone-concern TLAC-eligible unsecured debt. For the purposes of the example variable cost of debt analysis, we consider TLAC-eligible unsecured debt as the most relevant type of debt that UBS might see a benefit from

[25] C. Monnet, D. Niepelt, R. Taudien, "Pricing liquidity support: A PLB for Switzerland", Discussion Papers, No. 25-01, University of Bern, Department of Economics, Bern (2025)
[26] https://www.ubs.com/global/fr/investor-relations/events/agm/archive/2024/_jcr_content/mainpar/toplevelgrid_1645662/col2/accordion/accordionsplit_10606/linklistnewlook/link.0508180796.file/PS9jb250ZW50L2RhbS9hc3NldHMvY2MvaW52ZXN0b3ItcmVsYXRpb25zL2FnbS8yMDI0L2d2LXJlZGUtMjAyNC1zZXJnaW8tZXJtb3R0aS1lbi5wZGY=/gv-rede-2024-sergio-ermotti-en.pdf

increasing equity levels as a proportion of debt, due to its unsecured and subordinated nature. In practice, UBS may not be able to retire the full amount of debt immediately.

$'m	Dec-24
Due to banks	87,538
Payables from securities financing transactions	42,638
Due to customers	227,493
Funding received from UBS Group AG measured at amortized cost	113,898
Trading portfolio liabilities	29,316
Derivative financial instruments	14,005
Financial liabilities designated at fair value	102,901
Bonds issued	72,673
Accrued expenses and deferred income	8,230
Other liabilities	5,196
Provisions	3,101
Total liabilities	**706,989**
of which: subordinated liabilities	121,588
TLAC eligible unsecured debt	**91,970**

Table 16 Balance Sheet – UBS AG (Standalone) 31 December 2024
Source: "UBS AG Standalone financial statements and regulatory information for the year ended 31 December 2024", pp. 9, 48.

(91) The annual cost savings on AT1 and debt are calculated based on an immediate equity raise and retiring of AT1 and debt, using 4Q24 actuals for UBS AG (Standalone). We assume that the outstanding AT1 would reduce by $8.7bn and TLAC eligible unsecured debt by between $11.0bn and $14.6bn. The cost savings are therefore based on the net AT1 and TLAC-eligible unsecured debt.

$'m	Ref.	12.5%	13.5%
TLAC eligible unsecured debt	**A**	91,970	91,970
Less: retirement of debt	**B**	(11,030)	(14,579)
Net TLAC eligible unsecured debt outstanding	**C = A+B**	**80,940**	**77,391**

Table 17: Reduction in Debt
Source: Table 13;Table 16; A&M Analysis

(92) The illustrative sensitivity analysis below shows that a possible one percentage point reduction in coupon / interest rates associated with AT1 and debt could lead to savings of up to $71m for AT1s outstanding (19.6%) and up to $809m (20.9%) for TLAC eligible debt outstanding when compared to the existing estimated cost of AT1s and debt assumed by us (5.1% and 4.8% respectively).

		Annual cost (%)	
Net AT1 outstanding ($'m)	**7,117**	5.1%	4.1%
Estimated annual cost of AT1		**364**	**293**
Savings (against base-case of 5.1%)			71
% reduction (against base-case of 5.1%)			*19.6%*
CET1 Ratio	**12.5%**		
Net TLAC eligible unsecured debt outstanding ($'m)	**80,940**	4.8%	3.8%
Estimated annual cost		**3,875**	**3,066**
Savings (against base-case of 4.8%)			809
% reduction (against base-case of 4.8%)			*20.9%*
CET1 Ratio	**13.5%**		
Net TLAC eligible unsecured debt outstanding ($'m)	**77,391**	4.8%	3.8%
Estimated annual cost		**3,705**	**2,931**
Savings (against base-case of 4.8%)			774
% reduction (against base-case of 4.8%)			*20.9%*

Table 18: Illustrative sensitivity analysis on savings on cost of AT1 and Debt assuming M-MT
Source: Table 13; Table 14; A&M Analysis

Draft Proposal phase-in implementation scenarios

(93) We have considered the possibility that the proposed deduction approach will be introduced over time based on the current phase-in of the risk weighted asset approach. We consider two phase-in scenarios (6-years and 9-years) in the analyses below. For the purposes of the conservative phase-in implementation scenarios and subsequent analyses the following is assumed:

- A constant balance sheet, in line with prior analyses.
- A 12.5% and 13.5% CET1 capital ratio applies.
- The cost of equity and cost of debt inputs are consistent with the prior analyses in this report and remain constant over the time horizon.
- No mitigating measures to reduce capital requirements implemented.
- Planned distribution of the $13bn in dividends in 2025 (see paragraph (66)).

$'m	Ref.	2028 (L-T)	Cumulative phase-in Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103						
Target CET1 ratio	B	12.5%						
Required CET1 capital (2028 L-T)	**C = A*B**	**44,138**						
Net CET1 capital (4Q24)	D	24,395						
CET1 capital gap to Target CET1 ratio	**E**	**19,743**	**3,290**	**6,581**	**9,871**	**13,162**	**16,452**	**19,743**
Pillar 1 minimum CET1 requirement (4Q24)	F	10.0%						
Pillar 1 going-concern capital requirement (4Q24)	G	14.3%						
AT1 maximum requirement	**H = G-F**	**4.3%**						
Retirement of AT1 required for foreign participations (2028)	I	8,713	1,452	2,904	4,356	5,809	7,261	8,713
Retirement of debt	J = E-I	11,030	1,838	3,677	5,515	7,353	9,192	11,030
Amount of AT1 and debt replaced with equity	**E**	**19,743**	**3,290**	**6,581**	**9,871**	**13,162**	**16,452**	**19,743**
Consensus 2025 cost of equity	K	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	L	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	M	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	N = E*K	2,093	349	698	1,046	1,395	1,744	2,093
Less: reduction in debt-servicing costs	O = J*L	(528)	(88)	(176)	(264)	(352)	(440)	(528)
Less: reduction in AT1-servicing costs	P = I*M	(445)	(74)	(148)	(223)	(297)	(371)	(445)
Net annual cost of new equity	**Q = N+O+P**	**1,119**	**187**	**373**	**560**	**746**	**933**	**1,119**

Table 19 Draft Proposal estimated impact based on the assumption of a 6-year phase in approach (12.5%)
Source: Table 13; A&M analysis

$'m	Ref.	2028 (L-T)	Cumulative phase-in Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103						
Target CET1 ratio	B	13.5%						
Required CET1 capital (2028 L-T)	**C = A*B**	**47,687**						
Net CET1 capital (4Q24)	D	24,395						
CET1 capital gap to Target CET1 ratio	**E**	**23,291**	**3,882**	**7,764**	**11,646**	**15,528**	**19,410**	**23,291**
Pillar 1 minimum CET1 requirement (4Q24)	F	10.0%						
Pillar 1 going-concern capital requirement (4Q24)	G	14.3%						
AT1 maximum requirement	**H = G-F**	**4.3%**						
Retirement of AT1 required for foreign participations (2028)	I	8,713	1,452	2,904	4,356	5,809	7,261	8,713
Retirement of debt	J = E-I	14,579	2,430	4,860	7,289	9,719	12,149	14,579
Amount of AT1 and debt replaced with equity	**E**	**23,291**	**3,882**	**7,764**	**11,646**	**15,528**	**19,410**	**23,291**
Consensus 2025 cost of equity	K	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	L	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	M	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	N = E*K	2,469	411	823	1,234	1,646	2,057	2,469
Less: reduction in debt-servicing costs	O = J*L	(698)	(116)	(233)	(349)	(465)	(582)	(698)
Less: reduction in AT1-servicing costs	P = I*M	(445)	(74)	(148)	(223)	(297)	(371)	(445)
Net annual cost of new equity	**Q = N+O+P**	**1,326**	**221**	**442**	**663**	**884**	**1,105**	**1,326**

Table 20: Draft Proposal estimated impact based on the assumption of a 6-year phase in approach (13.5%)
Source: Table 13; A&M analysis

(94) The analysis in Table 19 and Table 20 above indicates that, immediately upon the Draft Proposal's introduction, the net CET1 capital gap to coverage of the target CET1 ratio is between $19.7bn to $23.3bn. Over a phase-in period of six years this would result in an annual $3.3bn to $3.9bn additional CET1 capital required at UBS AG (Standalone) until the cumulative 100% coverage is achieved in year 6. The cumulative coverage of CET1 capital will increase annually by between approximately 6.5% to 7.7% of the total value of participations until 100% coverage is achieved. The associated cost of the new equity will likewise increase each year until the phase-in is completed.

(95) Under a 9-year phase in, there is an estimated annual requirement of between $2.2bn to $2.6bn CET1 capital at UBS AG (Standalone). The cumulative coverage of CET1 capital on the total valuation of participations would increase by 4.3% to 5.1% per year until 100% coverage is achieved. The associated cost of equity would remain the same but increase annually at a correspondingly lower rate.

			Cumulative phase-in								
$'m	Ref.	2028 (L-T)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103									
Target CET1 ratio	B	12.5%									
Required CET1 capital (2028 L-T)	**C = A*B**	**44,138**									
Net CET1 capital (4Q24)	D	24,395									
CET1 capital gap to Target CET1 ratio	**E**	**19,743**	**2,194**	**4,387**	**6,581**	**8,775**	**10,968**	**13,162**	**15,355**	**17,549**	**19,743**
Pillar 1 minimum CET1 requirement (4Q24)	F	10.0%									
Pillar 1 going-concern capital requirement (4Q24)	G	14.3%									
AT1 maximum requirement	**H = G-F**	**4.3%**									
Retirement of AT1 required for foreign participations (2028)	I	8,713	968	1,936	2,904	3,872	4,840	5,809	6,777	7,745	8,713
Retirement of debt	**J = E-I**	11,030	1,226	2,451	3,677	4,902	6,128	7,353	8,579	9,804	11,030
Amount of AT1 and debt replaced with equity	**E**	**19,743**	**2,194**	**4,387**	**6,581**	**8,775**	**10,968**	**13,162**	**15,355**	**17,549**	**19,743**
Consensus 2025 cost of equity	K	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	L	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	M	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	**N = E*K**	2,093	233	465	698	930	1,163	1,395	1,628	1,860	2,093
Less: reduction in debt-servicing costs	**O = J*L**	(528)	(59)	(117)	(176)	(235)	(293)	(352)	(411)	(469)	(528)
Less: reduction in AT1-servicing costs	**P = I*M**	(445)	(49)	(99)	(148)	(198)	(247)	(297)	(346)	(396)	(445)
Net annual cost of new equity	**Q = N+O+P**	**1,119**	**124**	**249**	**373**	**497**	**622**	**746**	**871**	**995**	**1,119**

Table 21 Draft Proposal estimated impact based on the assumption of a 9-year phase-in approach (12.5%)
Source: Table 13: A&M Analysis

			Cumulative phase-in								
$'m	Ref.	2028 (L-T)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103									
Target CET1 ratio	B	13.5%									
Required CET1 capital (2028 L-T)	**C = A*B**	**47,687**									
Net CET1 capital (4Q24)	D	24,395									
CET1 capital gap to Target CET1 ratio	**E**	**23,291**	**2,588**	**5,176**	**7,764**	**10,352**	**12,940**	**15,528**	**18,116**	**20,704**	**23,291**
Pillar 1 minimum CET1 requirement (4Q24)	F	10.0%									
Pillar 1 going-concern capital requirement (4Q24)	G	14.3%									
AT1 maximum requirement	**H = G-F**	**4.3%**									
Retirement of AT1 required for foreign participations (2028)	I	8,713	968	1,936	2,904	3,872	4,840	5,809	6,777	7,745	8,713
Retirement of debt	**J = E-I**	14,579	1,620	3,240	4,860	6,479	8,099	9,719	11,339	12,959	14,579
Amount of AT1 and debt replaced with equity	**E**	**23,291**	**2,588**	**5,176**	**7,764**	**10,352**	**12,940**	**15,528**	**18,116**	**20,704**	**23,291**
Consensus 2025 cost of equity	K	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	L	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	M	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	**N = E*K**	2,469	274	549	823	1,097	1,372	1,646	1,920	2,195	2,469
Less: reduction in debt-servicing costs	**O = J*L**	(698)	(78)	(155)	(233)	(310)	(388)	(465)	(543)	(620)	(698)
Less: reduction in AT1-servicing costs	**P = I*M**	(445)	(49)	(99)	(148)	(198)	(247)	(297)	(346)	(396)	(445)
Net annual cost of new equity	**Q = N+O+P**	**1,326**	**147**	**295**	**442**	**589**	**736**	**884**	**1,031**	**1,178**	**1,326**

Table 22 Draft Proposal estimated impact based on the assumption of a 9-year phase-in approach (13.5%)
Source: Table 13: A&M Analysis

(96) Table 21 and Table 22 above are subject to an important caveat. Pressure from market counterparties often leads banks to implement new capital standards earlier than the formal date set in regulations. Reports by equity analysts and ratings assessments by rating agencies begin to scrutinise a bank's ability to reach the new standard well in advance. So, even if a six or a nine-year phase in period is used, the cost may occur perhaps several years ahead of the dates shown in our calculation.

(97) In addition, the tables do not consider further capital repatriations which may occur, thereby reducing the value of participations required to be covered with new CET1 capital, i.e. the $5bn outlined in paragraph (72).

5. Step three: Actions and consequences

(98) This section is structured in the following two parts:

- Part one deals firstly with the plausible responses that might be initiated by UBS (actions) in response to the implementation of the Draft Proposal.
- Part two follows the causal chain of these possible responses and associated short-to-medium term costs and benefits (consequences).

5.1. Part one: Actions - Potential responses from UBS

(99) In response to a de facto increase to the CET1 capital required by UBS Parent Bank on a stand-alone basis, **UBS Parent Bank has several options at its disposal to improve its CET1 capital ratio**, either through the *accumulation of CET1 capital* and/or *reducing RWAs and leverage exposure*. These options are not mutually exclusive and are interrelated, for example, profitability initiatives may impact capital retention.

(100) **Capital raise:** UBS Group AG might restrict future dividends and/or reduce or cancel planned share buyback, to increase retained profit. If that is insufficient, UBS might raise capital by a rights issue or share placement. UBS Group AG might then downstream the capital retained or raised as CET1 in the Parent Bank.

(101) The calculations of the costs of extra CET1 are presented in Section 4. This cost is based on the rate of return investor demand on equity capital. To meet this cost, UBS might need to find solutions to increase profits – see the paragraphs (107)-(108). If that were not fully possible, one might anticipate that UBS's price-to-book ratio for its equity shares would need to fall, so that the new market price was consistent with the investor demanded rate of return. This would have two consequences:

- The existing equity holders would bear the economic cost of the Draft Proposal.
- Although recent experience has shown that banks can remain viable for many years with a low price-to-earnings ratio, this often significantly limits both strategic options from growth and resilience in a crisis.

(102) **Capital retention / reduction in dividends distributed to shareholders or of share buy backs**: A lever available to UBS AG is to retain capital within UBS AG that might otherwise have been available for distributions to shareholders through share buybacks or dividends this includes future distributions as well as the (partial or complete) retention of the $13bn retained (but not eligible) CET1 Capital that the Bank is planning to distribute in 2025 (see paragraph (66)). Since the accrued capital cannot be used to pursue additional business opportunities, the shareholders, including employees with stock incentives, are negatively impacted.

(103) **Repatriation of excess capital from subsidiaries to Parent Bank:** Subject to the approval of foreign regulators, foreign subsidiaries may repatriate excess capital above their internal risk appetite levels to the Parent Bank. If implemented through a dividend, this would increase CET1 capital at the Parent Bank (standalone) level. Alternatively, if executed via a share redemption or buy-back, it would reduce the valuation of the subsidiary on UBS AG's (standalone) balance sheet, thereby lowering the amount deducted from UBS AG's (standalone) CET1 capital under prudential reporting. As a matter of context, UBS AG received $6.3bn in dividends from subsidiaries during 2024 and $13bn in capital repatriations during 4Q24.

(104) This option presupposes that there is 'excess' capital. That is capital that could be repatriated from a foreign subsidiary without it needing first to de risk or de-lever its business. On that assumption, the capital repatriation would not affect the quantum of future profits expected from the subsidiaries.

(105) **Decision to de-risk / de-leverage:** UBS Management might take decisions to de-risk / de-leverage the business to reduce RWAs and leverage. In theory, a reduction in risk could occur within UBS AG itself and/or across any subsidiary of UBS AG that distributes dividends to UBS AG. All other things being equal, a reduction in RWAs and leverage exposure would improve the relevant entity's capital ratios through reducing the denominator. If risk reductions take place at the subsidiary-level, the resulting excess capital could be repatriated to UBS AG, improving the CET1 capital position of UBS AG (standalone). If risk reductions take place at the UBS AG entity-level, its CET1 capital ratio would improve through a reduction in the denominator. Mechanisms to reduce risk typically include restrictions on new businesses or rolling over loans, roll-offs or disposals of non-core portfolios as well as securitization transactions. As part of standard capital management and recovery planning practices, UBS is likely to have already identified strategic opportunities across the business for these reductions to take place. Furthermore, a business reduction was already initiated with the restructuring and integration of Credit Suisse business; out of which there may be additional potential for freeing up capital. This can mean that a decision to reduce risk can be implemented relatively swiftly and at a lower cost to the business than other potential options.

(106) This option may have broad consequences for UBS and its stakeholders depending on the specific initiatives undertaken by UBS. We outline the possible short-to-medium term costs and benefits for UBS and each relevant stakeholder throughout Sections 5.4 - 5.10. In brief, here we note that:

- By de-risking and/or de-leveraging UBS might reduce the need to raise new capital so eliminating some of the cost of that capital, which we estimated in Step two above.
- The de-risking and/or de-leveraging could lead to a reduction in profits. This in turn would reduce UBS's ability to achieve sufficient profitability to meet investor expectations inherent in the cost of its existing capital stack. If this profitability could not somehow be replaced, one might anticipate that UBS's price-to-book ratio for its equity shares would need to fall, so that the new market price was consistent with the investor demanded rate of return. The consequences of that have already been described in paragraph (101).

(107) **Profit initiatives:** UBS may decide to initiate further profitability enhancement initiatives in addition to its current projects in order to increase profit after tax available to allocate to retained earnings. Profitability initiatives could occur within UBS AG itself and/or across any subsidiary of UBS AG; increased profits would then need to be distributed to UBS AG in form of dividends. Profitability initiatives could take place on both the revenue and cost-side. Depending on the types of initiatives undertaken by UBS, there are a broad range of potential impacts on UBS, its subsidiaries and its stakeholders that are described in Sections 5.4 - 5.10.

(108) This option presupposes that profitability could be increased without a commensurate increase in RWAs, e.g., by growing fee-based income from wealth management while keeping Investment Banking at around 25% of RWA as stated in the Bank's annual report. We do not have the data to assess the feasibility of UBS achieving this course of action (response) on a large scale.

(109) **Change to the group structure**: actions here might include the following: selling foreign subsidiaries to a third party; moving the ownership of the foreign participations from the Parent Bank to UBS AG (the ultimate holding company); a partial IPO of UBS Switzerland, perhaps with UBS Group retaining a majority interest; moving the Group "headquarters" outside of Switzerland; some combination of these strategic actions, e.g., the last two combined. Actions such as these have long lead times to execute and widespread consequences, and they might profoundly change the business model of the bank. However, given the capital quantum of the Draft Proposal (see the Step one calculations above) and that, absent mitigation actions, it would lead to very significant costs (see the Step two calculations above), we expect that UBS might commence work to study the feasibility of strategic actions such as these.

5.2. Part two: Illustrative analyses of alternatives to a full capital raise under a phase-in approach

(110) The chart below illustrates some possible actions by UBS described above.

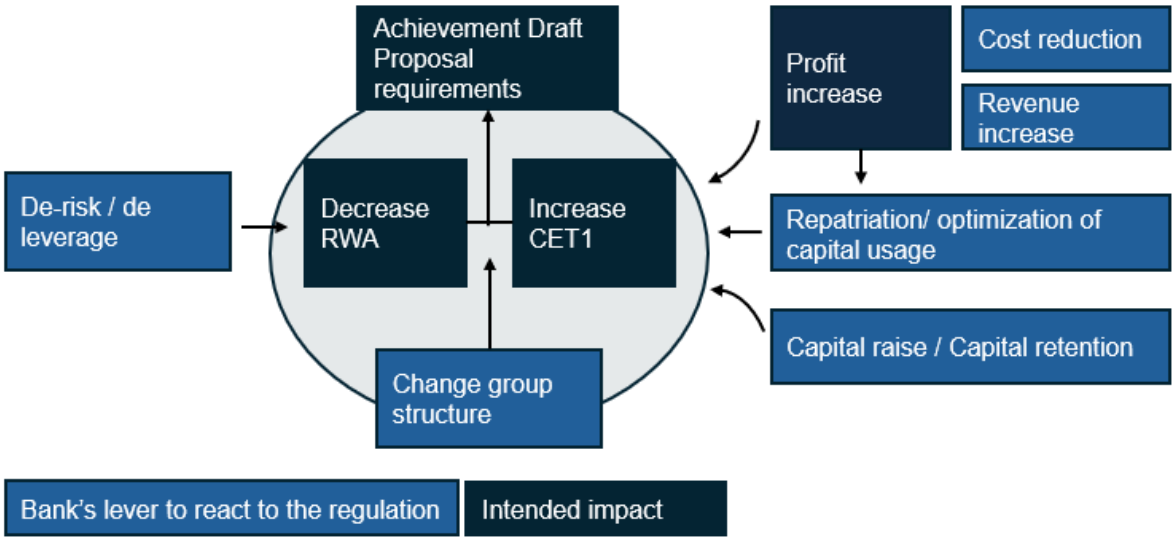

Figure 7: Illustration of potential responses from UBS to achieve the Draft Proposal requirements

5.3. Illustrative analyses of alternatives to a full capital raise under a phase-in approach

(111) If successful actions were taken enabling capital to be repatriated or accreted from other activities, this would reduce the cost of capital calculated in Step two above. The calculations in Table 23, Table 24, Table 25, and Table 26 below illustrate what would happen if an annual repatriation / accretion of $1 billion could be achieved without, in doing so, reducing UBS's future profitability.

$'m	Ref.	2028 (L-T)	Cumulative phase-in Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103						
Target CET1 ratio	B	12.5%						
Required CET1 capital (2028 L-T)	**C = A*B**	**44,138**						
Net CET1 capital (4Q24)	D	24,395						
CET1 capital gap to Target CET1 ratio	**E**	**19,743**	**3,290**	**6,581**	**9,871**	**13,162**	**16,452**	**19,743**
of which: repatriated from subsidiaries or accreted from activities	F	6,000	1,000	2,000	3,000	4,000	5,000	6,000
of which: equity to replace debt / AT1	G	13,743	2,290	4,581	6,871	9,162	11,452	13,743
Pillar 1 minimum CET1 requirement (4Q24)	H	10.0%						
Pillar 1 going-concern capital requirement (4Q24)	I	14.3%						
AT1 maximum requirement	**J = I-H**	**4.3%**						
Retirement of AT1 required for foreign participations (2028)	K	8,713	1,452	2,904	4,356	5,809	7,261	8,713
Retirement of debt	L = G-K	5,030	838	1,677	2,515	3,353	4,192	5,030
Amount of AT1 and debt replaced with equity	**G**	**13,743**	**2,290**	**4,581**	**6,871**	**9,162**	**11,452**	**13,743**
Consensus 2025 cost of equity	M	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	N	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	O	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	P = E*K	1,457	243	486	728	971	1,214	1,457
Less: reduction in debt-servicing costs	Q = J*L	(241)	(40)	(80)	(120)	(161)	(201)	(241)
Less: reduction in AT1-servicing costs	R = I*M	(445)	(74)	(148)	(223)	(297)	(371)	(445)
Net annual cost of new equity	**S = P+Q+R**	**771**	**128**	**257**	**385**	**514**	**642**	**771**

Table 23: 6-year phase-in with capital gap covered by new equity and other responses, 12.5% CET1 ratio
Source: Table 13; A&M Analysis

$'m	Ref.	2028 (L-T)	Cumulative phase-in Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103						
Target CET1 ratio	B	13.5%						
Required CET1 capital (2028 L-T)	**C = A*B**	**47,687**						
Net CET1 capital (4Q24)	D	24,395						
CET1 capital gap to Target CET1 ratio	**E**	**23,291**	**3,882**	**7,764**	**11,646**	**15,528**	**19,410**	**23,291**
of which: repatriated from subsidiaries or accreted from activities	F	6,000	1,000	2,000	3,000	4,000	5,000	6,000
of which: equity to replace debt / AT1	G	17,291	2,882	5,764	8,646	11,528	14,410	17,291
Pillar 1 minimum CET1 requirement (4Q24)	H	10.0%						
Pillar 1 going-concern capital requirement (4Q24)	I	14.3%						
AT1 maximum requirement	**J = I-H**	**4.3%**						
Retirement of AT1 required for foreign participations (2028)	K	8,713	1,452	2,904	4,356	5,809	7,261	8,713
Retirement of debt	L = G-K	8,579	1,430	2,860	4,289	5,719	7,149	8,579
Amount of AT1 and debt replaced with equity	**G**	**17,291**	**2,882**	**5,764**	**8,646**	**11,528**	**14,410**	**17,291**
Consensus 2025 cost of equity	M	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	N	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	O	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	P = E*K	1,833	305	611	916	1,222	1,527	1,833
Less: reduction in debt-servicing costs	Q = J*L	(411)	(68)	(137)	(205)	(274)	(342)	(411)
Less: reduction in AT1-servicing costs	R = I*M	(445)	(74)	(148)	(223)	(297)	(371)	(445)
Net annual cost of new equity	**S = P+Q+R**	**977**	**163**	**326**	**488**	**651**	**814**	**977**

Table 24: 6-year phase-in with capital gap covered by new equity and other responses, 13.5% CET1 ratio
Source: Table 13; A&M Analysis

$'m	Ref.	2028 (L-T)	Cumulative phase-in Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103									
Target CET1 ratio	B	12.5%									
Required CET1 capital (2028 L-T)	**C = A*B**	**44,138**									
Net CET1 capital (4Q24)	D	24,395									
CET1 capital gap to Target CET1 ratio	**E**	**19,743**	**2,194**	**4,387**	**6,581**	**8,775**	**10,968**	**13,162**	**15,355**	**17,549**	**19,743**
of which: repatriated from subsidiaries or accreted from activities	F	9,000	1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000
of which: equity to replace debt / AT1	G	10,743	1,194	2,387	3,581	4,775	5,968	7,162	8,355	9,549	10,743
Pillar 1 minimum CET1 requirement (4Q24)	H	10.0%									
Pillar 1 going-concern capital requirement (4Q24)	I	14.3%									
AT1 maximum requirement	**J = I-H**	**4.3%**									
Retirement of AT1 required for foreign participations (2028)	K	8,713	968	1,936	2,904	3,872	4,840	5,809	6,777	7,745	8,713
Retirement of debt	L = G-K	2,030	226	451	677	902	1,128	1,353	1,579	1,804	2,030
Amount of AT1 and debt replaced with equity	**G**	**10,743**	**1,194**	**2,387**	**3,581**	**4,775**	**5,968**	**7,162**	**8,355**	**9,549**	**10,743**
Consensus 2025 cost of equity	M	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	N	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	O	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	P = E*K	1,139	127	253	380	506	633	759	886	1,012	1,139
Less: reduction in debt-servicing costs	Q = J*L	(97)	(11)	(22)	(32)	(43)	(54)	(65)	(76)	(86)	(97)
Less: reduction in AT1-servicing costs	R = I*M	(445)	(49)	(99)	(148)	(198)	(247)	(297)	(346)	(396)	(445)
Net annual cost of new equity	**S = P+Q+R**	**596**	**66**	**132**	**199**	**265**	**331**	**397**	**464**	**530**	**596**

Table 25: Draft Proposal estimated impact based on the assumption of a 9-year phase-in and with capital gap covered by new equity and other responses, 12.5% CET1 ratio
Source: Table 13; A&M Analysis

$'m	Ref.	2028 (L-T)	Cumulative phase-in Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RWAs excluding foreign subsidiaries (2028 L-T)	A	353,103									
Target CET1 ratio	B	13.5%									
Required CET1 capital (2028 L-T)	**C = A*B**	**47,687**									
Net CET1 capital (4Q24)	D	24,395									
CET1 capital gap to Target CET1 ratio	**E**	**23,291**	**2,588**	**5,176**	**7,764**	**10,352**	**12,940**	**15,528**	**18,116**	**20,704**	**23,291**
of which: repatriated from subsidiaries or accreted from activities	F	9,000	1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000
of which: equity to replace debt / AT1	G	14,291	1,588	3,176	4,764	6,352	7,940	9,528	11,116	12,704	14,291
Pillar 1 minimum CET1 requirement (4Q24)	H	10.0%									
Pillar 1 going-concern capital requirement (4Q24)	I	14.3%									
AT1 maximum requirement	**J = I-H**	**4.3%**									
Retirement of AT1 required for foreign participations (2028)	K	8,713	968	1,936	2,904	3,872	4,840	5,809	6,777	7,745	8,713
Retirement of debt	L = G-K	5,579	620	1,240	1,860	2,479	3,099	3,719	4,339	4,959	5,579
Amount of AT1 and debt replaced with equity	**G**	**14,291**	**1,588**	**3,176**	**4,764**	**6,352**	**7,940**	**9,528**	**11,116**	**12,704**	**14,291**
Consensus 2025 cost of equity	M	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*
Estimated after tax cost of debt	N	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Estimated after tax cost of AT1	O	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Annual cost of new equity	P = E*K	1,515	168	337	505	673	842	1,010	1,178	1,347	1,515
Less: reduction in debt-servicing costs	Q = J*L	(267)	(30)	(59)	(89)	(119)	(148)	(178)	(208)	(237)	(267)
Less: reduction in AT1-servicing costs	R = I*M	(445)	(49)	(99)	(148)	(198)	(247)	(297)	(346)	(396)	(445)
Net annual cost of new equity	**S = P+Q+R**	**802**	**89**	**178**	**267**	**357**	**446**	**535**	**624**	**713**	**802**

Table 26: Draft Proposal estimated impact based on the assumption of a 9-year phase-in and with capital gap covered by new equity and other responses, 13.5% CET1 ratio
Source: Table 13; A&M Analysis

5.4. Consequences - Impact on UBS

(112) This subsection outlines the possible impacts on UBS itself as a consequence of initiating each of options outlined above in Section 5.1, following a causal chain logic. We note that the probability of each impact materialising would vary depending on actions and the severity of the actions undertaken by UBS and that there is a considerable degree of circularity between the impacts.

(113) **Decision to de-risk / de-leverage:** As outlined above, one of the primary ways a bank can increase its CET1 capital ratio is through reducing RWAs / leverage exposure. This approach is supported by findings from E. Wold and R. Juelsrud[27], which indicate that when banks face higher capital requirements, they often respond by reducing RWAs. For UBS, reductions in RWAs or leverage exposure could have the following implications:

- Lowers the capital requirement directly without needing to generate additional capital.
- Profitability and retained earnings potential: Reducing lending activities or rebalancing towards lower-risk lending can negatively impact the bank's profitability due to the lower returns typically associated with such activities. This, in turn, could have counterproductive implications for retained earnings if the reduction in RWAs is outweighed by the forgone earnings.

To mitigate this, UBS might consider increasing lending rates in all geographies for higher-risk assets, such as corporate lending. However, the effectiveness of this strategy would depend on the 'stickiness' of corporate borrowers—i.e., their willingness to accept higher rates or ability to switch to another lender. If borrowers remain, this could offset some of the negative effects of portfolio rebalancing.

(114) UBS's market share in certain business lines may decline as a result of intentional de-risking, whether through portfolio divestments or business restrictions.

(115) **Repatriation of excess capital from subsidiaries to Parent Bank:** Subject to foreign regulatory approval, UBS may repatriate excess capital from its subsidiaries to the Parent Bank. This is a direct and intended outcome of the Draft Proposal and, in the short-to-medium term, would effectively enhance the overall recoverability of the UBS Group. While this action would have a positive impact on the CET1 capital ratio of the Parent Bank, it would simultaneously reduce the capital and liquidity levels at the subsidiary level. However, given that the central treasury function of UBS Group resides within the Parent Bank, a potential increase in the overall Group's credit rating, driven by a stronger capital position, could potentially benefit the subsidiaries.

(116) **Profit initiatives:** Profit initiatives may support CET1 capital accretion in a phased approach while maintaining a level of dividend distributions to shareholders. This balance could help UBS achieve its capital objectives without significantly disrupting shareholder returns. UBS may experience varying impacts depending on the profit initiatives it undertakes:

- **Revenue-side initiatives:** Increasing bank service prices or credit margins in the corporate and real estate lending business could improve profitability but may come at the cost of customer dissatisfaction and reputational damage. Dissatisfied customers might transfer their business to competitors, which could negatively affect UBS's market share, long-term profitability, and liquidity ratios—particularly if those customers also provide funding to UBS, i.e. by way of deposits.
- **Cost-side initiatives**: On the cost side, significant headcount reductions in support functions (administration, risk management, compliance, HR, etc.) could create operational bottlenecks, while cuts to front-office staff might risk client satisfaction. Both

[27] E. Wold and R. Juelsrud, "Risk-weighted capital requirements and portfolio rebalancing" (2017) - E. Wold and R. Juelsrud, "Risk-weighted capital requirements and portfolio rebalancing" (2020)

scenarios could jeopardize UBS's future profitability and front-office reductions may risk UBS's market share.

(117) **Capital retention / reduction in dividends distributed to shareholders**: Capital retention refers to the practice of maintaining and preserving earnings rather than distributing them as dividends or through share repurchases. This approach is a relatively straightforward and non-disruptive method for UBS to improve its CET1 capital position over a multi-year period. However, altering the current capital structure could lead to a higher cost of capital for the bank. As a result, the bank might need to increase its lending margins[28] and reducing lending activities, negatively impacting its competitiveness. However, we note that some studies found the impact on lending activities marginal[29].

(118) **Capital raise:** A capital raise would have a similar impact on the bank's cost of capital as the capital retention approach, however, the impact would be immediate rather than spread out over multiple years. Furthermore, it would incur one-off costs associated with the share offering in the market.

5.5. Consequences - Impact on Shareholders

(119) A shift to a capital structure optimised for the Draft Proposal could negatively impact shareholder wealth[30]. Assuming the value of the bank is already optimised through the current capital structure with the optimum mix of equity and debt, and assuming trade-offs such as interest tax shield, bankruptcy[31] and agency costs[32] are considered. A shift from the optimal capital structure reduces the value of the company, and consequently also shareholder wealth. Furthermore, if UBS faces constraints relative to other banks in its ability to return capital to shareholders through share buybacks, this might result in some existing shareholders divesting their holdings.

(120) Shareholders could also react negatively to their ownership dilution, anticipating lower future cash flow to equity, which could consequently lower the share price. This effect might be particularly evident in the context of a capital raise, if the new shares are issued at a lower price. A stronger capital base could however make the Bank more attractive for long term oriented low-risk investors.

(121) If UBS shifts its business activities or gives up profitable business as a response to the change in regulation, and independently to the change in capital structure itself, the reduction of profitable business activities could lead to lower profitability and business outlook, further impacting shareholders negatively.

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[28] R. Barrell and al., "Optimal regulation of bank capital and liquidity: how to calibrate new international standards" (FSA, Occasional Paper Series, Jul 2009)
[29] D. Elliott, "Quantifying the Effects on Lending of Increased Capital Requirements", (Sep 2009)
[30] Franco Modigliani and Merton H. Miller, "Corporate Income Taxes and the Cost of Capital: A Correction", (1963)
[31] Kraus and Litzenberger, "A State-Preference Model of Optimal Financial Leverage", (1973)
[32] Jensen and Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", (1976)

5.6. Consequences - Impact on Employees

(122) As described in Section 5.1, increased capital requirements can lead to higher pressure on the bank profitability. Based on UBS Group (consolidated) 2024 full-year results, personnel expenses represent about 66% (or $27.3bn) of the total operating costs, which makes these a potential target for cost takeout initiatives.

(123) Depending on how quickly the new regulations are introduced, the bank may be forced to reduce its workforce through mass layoffs or at least hiring freezes throughout the Group's entities.

(124) Increased pressure on profitability could lead to an increase in workload for remaining employees, and potentially to a decrease in the quality of customer service or risk management activities. After a reduction of personnel, the remaining staff may experience increased stress and job insecurity, leading to lower morale[33] and productivity[34]. Talented employees may seek jobs elsewhere, leading to further losses in skilled personnel[35]. Reduced service levels could frustrate customers, potentially leading to account closures or lost business.

(125) Moreover, bonuses are often tied to returns on equity (ROE), which are expected to decline under the new capital rules. As the capital requirements would only affect UBS, employees of the bank could be led to assume that the regulation would finally affect their variable compensation[36]. Key employees could therefore anticipate the potential impact on their compensation and decide to leave the bank to join a competitor unaffected by such regulation.

(126) If the pressure on cost reductions is too high, the bank could risk losing key employees and with them knowledge and expertise. The bank may finally struggle to innovate or expand due to workforce limitations[37].

5.7. Consequences - Impact on Borrowers

(127) The bank may pass on the cost of raising additional capital to borrowers by increasing interest margins on corporate or real estate backed residential or commercial mortgage loans. Borrowers with variable rates might see an increase in their debt costs or might face stricter refinancing conditions[38].

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[33] D. Elzinga and A. Lavoie, "Research: The Long-Term Costs of Layoffs", (Oct 2024)
[34] S. López Bohle, P. Matthijs Bal, P. G.W. Jansen, P. I. Leiva, A. Mladinic Alonso, "How mass layoffs are related to lower job performance and OCB among surviving employees in Chile: an investigation of the essential role of psychological contract", (Feb 2016)
[35] C. O. Trevor and A. J. Nyberg, "Keeping your headcount when all about you are losing theirs: downsizing, voluntary turnover rates, and the moderating role of HR practices", (Apr 2008)
[36] J. Steinbrecher, H. Hau, P. Kampkötter, M. Efing, "Bankers' bonuses and performance sensitivity", (Nov 2014)
[37] B. Ramdani, C. Guermat and K. Mellahi, "The effect of downsizing on innovation outputs: The role of resource slack and constraints" (Nov 2020)
[38] S. Campbell, "Fixing What Ain't Broken: The Real and Hidden Costs of Excessive Bank Capital Regulation", (Jan 2023)

(128) It is to be noted that, given the higher level of competition that UBS faces in foreign markets, a similar measure would most probably affect the Swiss market more, where the Bank is in a stronger competitive position and hence has more pricing power.

(129) Capital requirements are risk-sensitive in nature and therefore, during the period in which the Bank would be required to increase its capital position, UBS could react to the higher requirements by reducing the average riskiness of its loan portfolio. The Bank may become more conservative tightening lending standards to maintain profitability while complying with regulatory standards. In historic examples, it was observed that banks subjected to higher capital requirements opted to reduce risk weighted assets rather than increasing their capital[39].

(130) However, other studies indicate that the increased pressure on profitability could also push the Bank to invest in higher-risk, higher-return assets to offset the cost of holding more capital or to underreport risk[40].

5.8. Consequences - Impact on Depositors

(131) Banks may seek to raise net interest income margins to increase profitability to maintain dividend distributions and/or retain capital. One area a bank might look to achieve this is by lowering deposit interest rates. To what degree a bank can achieve this depends on the market power[41], which in case of UBS varies between the different markets it operates in and is the highest in Switzerland. The lowering of interest rates is, however, limited by the zero lower bound and is therefore influenced by the interest rates set by the central bank.

(132) UBS's clients might also be adversely impacted by potential decisions from UBS to increase profitability through other revenue-side measures such as for example, increasing banking service fees, asset management fees and advisory fees.

(133) However, as the capital ratio gradually increases, clients may perceive their deposits as more secure, and the Bank could become more attractive to new depositors, thereby increasing the Bank's liquidity and funding.

5.9. Consequences - Impact on Counterparties (other financial institutions)

(134) In general, the impact on other stakeholders described in the Sections 5.4 - 5.8 would likely lead to a deterioration of UBS's competitive market position (or, in a sense, the loss of competitive advantages stemming from the use of double leverage) and therefore a positive impact on other competitors.

(135) A potential combination of a decrease in service level (quality), a decrease in interest rates offered on deposits, and an increase in transaction costs would reduce the attractiveness of UBS to depositors and be an opportunity for competitors to either gain market share or increase their profitability through similar price increases.

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[39] R.E. Gropp, T. Mosk, S. Ongena, C. Wix, "Bank response to higher capital requirements: Evidence from a quasi-natural experiment", (IWH Discussion Papers, No. 33/2016, 2016)
[40] A. Baena, "Do capital requirements really reduce the riskiness of banks?", (2023)
[41] R. Döttling "Bank capital regulation in a zero-interest environment", (ECB, Jun 2020)

(136) An increase in interest margins on loans at UBS would also give UBS's competitors the opportunity to gain market share or potentially, by tagging along on the interest rates increases, increasing their profitability.

(137) A decision to de-risk / de-leverage as described in Section 5.1 would make it more challenging for higher risk borrower to access loans potentially creating opportunities to foreign banks or alternative less regulated lenders to gain market share in Switzerland.

(138) Prior studies suggest that increased capital requirements tend to have relatively less impact on interbank lending activity as opposed to liquidity requirements. Therefore, the impact on interbank lending and thus liquidity in the interbank market in Switzerland might not be material, especially under a phase-in approach over multiple years.

5.10. Consequences - Impact on Swiss Market

(139) **Tax implication**: Based on the estimate presented in UBS's 2024 Annual Report, UBS and its employees jointly paid a total of approximately CHF 2bn in taxes in Switzerland in 2024 which represents approximately 1% of the total Swiss tax income[42]. Higher capital requirements will increase pressure on profitability. Depending on where performance increases are sought, it may have a positive impact on UBS's corporate tax paid in Switzerland, on the other hand, layoffs and reduction in total compensations could lead to lower individual tax collection from employees and potentially higher social costs due to unemployment allowances.

(140) **Employees / consumer confidence**: Based on its Annual Report, UBS had in 2024 approximately 34,000 employees in Switzerland. A headcount reduction could generate job uncertainty and lead to more conservative spending behaviour of the Bank's employees, which could affect the overall Swiss economy but especially economic activities/ consumer sentiment in Zurich, Geneva and Basel and the greater areas around these cities where most of the employees are concentrated.

(141) **Lending / economic activities:** In 2024, the total loan book in Switzerland across all banks was reported to be approximately CHF 1,517bn. UBS's loan book in Switzerland, amounted to CHF 350 billion, representing over 20% of the total loan volume in the country. While, according to studies "*total borrowing […] does not fall, as firms switch to other banks*"[43], the short-term tightening of lending activities could lead to higher costs of debt[44] and therefore potentially to a reduction in economic activity in Switzerland especially in higher-risk activities, e.g. corporate lending to SMEs in Switzerland which in 2022 represented 99.7% of the total Swiss companies or c. 66% of the Swiss workforce[45]. It might also, at least in the short term, lead to reduced appetite in mortgage lending which would be disadvantageous for individuals/families.

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[42] tradingeconomics.com, Switzerland General Government Revenues
[43] G. Favara, I. Ivanov, M. Rezende, "GSIB surcharges and bank lending: Evidence from US corporate loan data" (Dec 2021)
[44] S. Campbell, "Fixing What Ain't Broken: The Real and Hidden Costs of Excessive Bank Capital Regulation", (Jan 2023)
[45] Bundesamt für Statistik BFF, "Porträt der Schweizer KMU, 2011–2021", (2023)

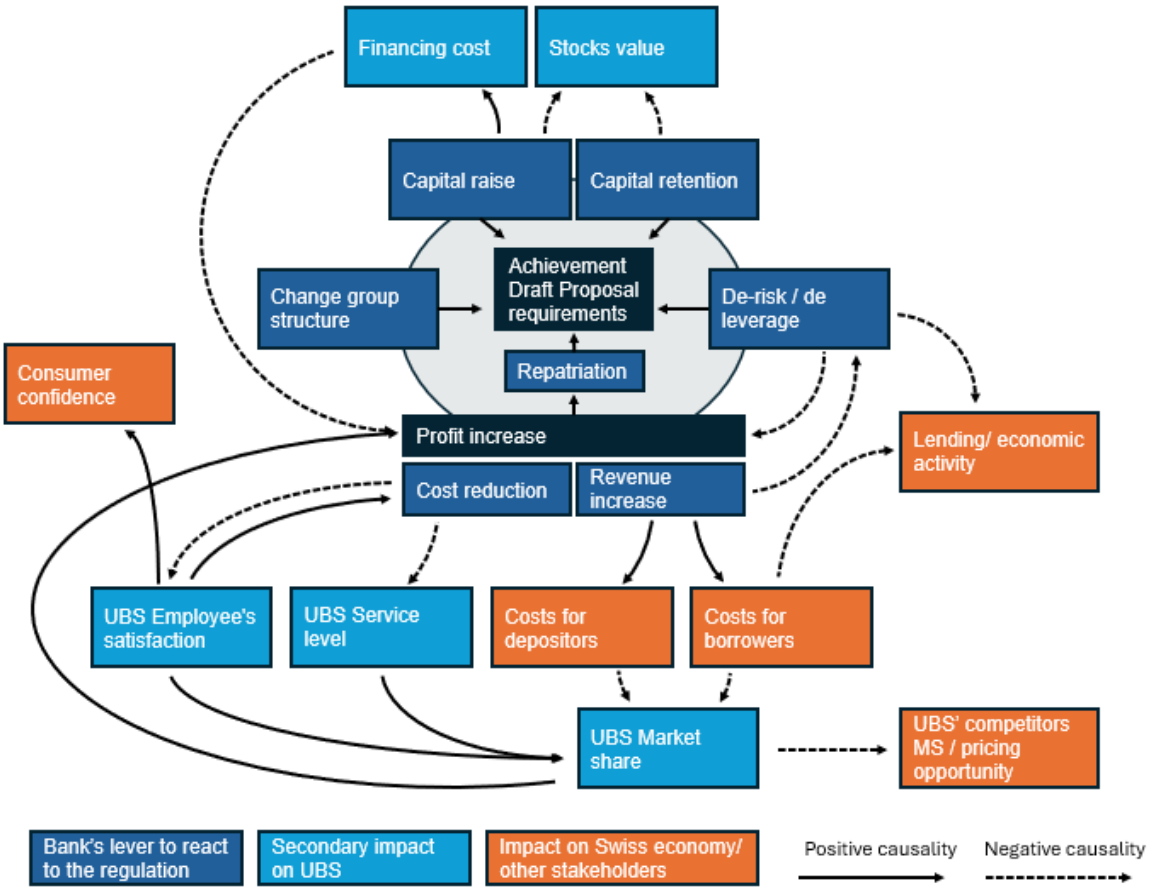

Figure 8: Illustration of the consequences - Impact on UBS, its stakeholders and the Swiss economy

6. Step Four: Analysis of the likelihood of convergence to the intended benefits

(142) As outlined in paragraph (27) of this report, the Swiss Federal Council considers the following to be intended outcomes of the Draft Proposal:

- Ensure "*that capital that is passed on to subsidiaries cannot simultaneously be used as capital for other risks at the level of the parent bank, or only to a much smaller extent.*"
- Thereby, increase "*the strategic room for manoeuvre in a crisis, as participations that have lost significant value can be sold if necessary, without serious consequences for the parent bank's capital*".
- Create "*incentives for banks with complex structures to reduce internal interconnectedness and, if necessary, to adjust the group structure. Such adjustments further increase the likelihood of a restructuring being successful. This achieves the effect that the [Too-Big-To-Fail] regime was aiming for, especially with a targeted increase regarding foreign participations*". This "*could also mitigate the impact of any ring-fencing measures imposed by foreign authorities on the parent bank's capital*".

We provide a view on the likelihood of each intended outcome below.

(143) The Draft Proposal eliminates the incentives to utilise double leverage to fund foreign domiciled subsidiaries. It achieves this by requiring the value of participations in foreign subsidiaries to be deducted from the Parent Bank's regulatory capital. For example, under a 100% deduction approach, only the capital issued by the Parent Bank and injected as equity would count toward the subsidiary's regulatory capital. This eliminates the incentives for 'double counting' the same capital at both the subsidiary and Parent Bank levels for regulatory purposes. By removing the risk-weighting of participations in foreign subsidiaries and excluding the corresponding capital from the Parent Bank's standalone capital position, the Draft Proposal effectively eliminates the regulatory capital concessions granted to the Parent Bank and compels the Parent Bank to ensure that its own activities are fully covered by capital held at the Parent Bank level.

(144) By requiring the deduction of participations in foreign subsidiaries from the Parent Bank's regulatory capital, the Draft Proposal eliminates the risk of a regulatory capital deficit caused by losses in subsidiary valuations. This approach allows the Parent Bank to prioritise the long-term financial health of the Group during a crisis without being constrained by immediate negative impacts on its standalone regulatory capital position. As a result, the Parent Bank gains greater flexibility to undertake substantial restructuring at the subsidiary level, including the potential sale of participations that have lost significant value, without jeopardizing its regulatory capital adequacy.

(145) The Draft Proposal increases the likelihood of successful recovery and resolvability of the wider Banking Group. Under the current risk-weighted approach, there is an implicit assumption of capital fungibility between the Parent Bank and its foreign (and domestic) subsidiaries. This allows the Parent Bank to benefit from the valuation of foreign subsidiaries for regulatory capital purposes, even when the corresponding capital is not directly available to the Parent Bank. By requiring a 100% deduction of participations in foreign subsidiaries, the Draft Proposal ensures that the Parent Bank's standalone balance sheet and those of its subsidiaries are assessed independently. This approach compels the Parent Bank to hold sufficient and readily deployable capital on its own balance sheet to cover its and its subsidiaries' risks, without relying on assumed fungibility between entities. This separation reduces the Parent Bank's reliance on extracting capital from foreign subsidiaries during a crisis, which may be restricted by ring-fencing measures imposed by foreign regulators seeking to protect their domestic stakeholders. Ultimately, the Draft Proposal strengthens all Group entities'/banks' ability to recover and resolve independently, aligning with the objectives of the Too-Big-To-Fail regime by reducing internal interconnectedness and encouraging structural adjustments within complex banking groups.

(146) When considering the intended outcomes of the Draft Proposal, the relative systemic importance of UBS may provide additional context. According to BIS, in its G-SIB scores based on the end of 2023 data, UBS was ranked seventh most systemically important bank in the world overall out of 40 G-SIBS. In terms of size, UBS ranked 21st out of 40, interconnectedness 5th, substitutability 7th, complexity 4th and cross-jurisdictional 8th. Out of the 15 G-SIBS in Buckets 2-4, UBS was the only non-Group of 20 Nation to have a G-SIB. Refer to the below illustration for further information.

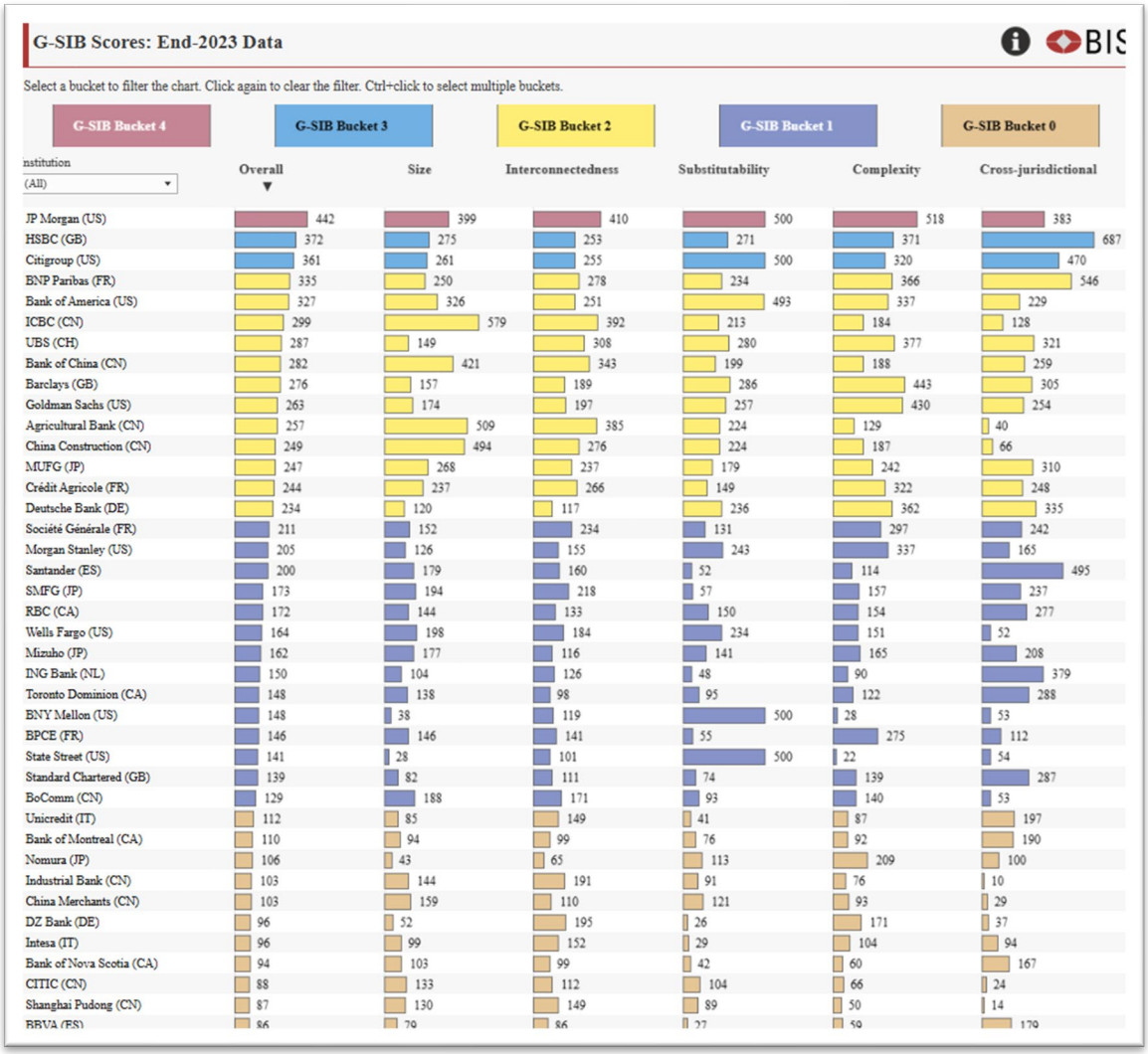

Figure 9: "Global systemically important banks: assessment methodology and the additional loss absorbency requirement" (Nov 2024)

7. Longer term costs and benefits assessed

In addition to, and as a result of the achievement of the intended benefits described in the previous section, we expect an additional set of long-term benefits and costs:

(147) **Financial risks to the Swiss state**: After the acquisition of Credit Suisse, UBS's total assets amount to approximately CHF 1.5tn according to UBS's 2024 annual report, while the yearly Swiss GDP was estimated at CHF 0.8tn; the costs of a bail-out of UBS could exceed the government's capacity to intervene without severe economic consequences. A stronger balance sheet would reduce the likelihood of requiring Swiss state intervention to rescue UBS and the associated expected economic losses. This reduction in systemic risk is deemed a substantial benefit to the Swiss economy[46]. It should be noted that placing excessive emphasis on capital requirements could result in an over-reliance on capital, causing both the Bank and its regulator to underestimate other critical factors driving and accelerating a crisis situation, potentially leading to delayed responses. We understand however, that the Swiss regulator is also considering additional measures affecting other factors like liquidity management, governance, and regulatory oversight.

(148) **Banking system resilience:** In times of financial crises, larger capital reserves offer stronger protection against unforeseen losses. A well-capitalised bank can endure substantial losses without facing insolvency, thereby lowering the likelihood of failure and enhancing the resilience of the Swiss economy to global banking crises. Additionally, its capacity to absorb shocks minimises the risk of contagion, where the collapse of one bank triggers a chain reaction across the financial system, contributing to the stability of the international financial markets and banking sector. Moreover, a bank with a stronger capitalisation than its peers is expected to experience higher confidence with depositors. During a crisis, this confidence can decrease the probability of a liquidity run.

(149) **Bank competitive (dis-)advantage:** A capital raise undertaken to increase the bank's capital position could result in a higher cost of capital and adversely affect its competitive advantage relative to peers with lower capital requirements— especially if the capital raise occurs during a period of disruption in global equity markets. A higher cost of capital translates into a higher hurdle rate when evaluating business opportunities and, in practice, may lead to a reduction in lending[47] as a consequence of increased lending spreads[48, 49]. This places the bank at a competitive disadvantage and increases the risk of losing market share. The peer analysis in Figure 10, presents a UBS Group 2028 (L-T) CET1 capital ratio of between 17.3-19% (before any mitigation measure), which is significantly higher, by 3-5 percentage points, than the average G-SIBs in Buckets 2-4 (average of c. 14%). The significant delta of capital requirements for UBS might drive an unlevelled playing field relative to peers, potentially necessitating change in its strategy to safeguard the viability of its business model.

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[46] G. Junge and P. Kugler, "Quantifying the Impact of Higher Capital Requirements on the Swiss Economy", (Swiss Society of Economics and Statistics, 2013, Vol. 149 (3) 313–356)
[47] R. Gropp, and al., "Bank Response To Higher Capital Requirements: Evidence From A Quasi-Natural Experiment", (Working paper, Dec 2016)
[48] J. Schanz, and al. "The long-term economic impact of higher capital levels", (BIS Papers No 60, Dec 2011)
[49] R. Barrell and al., "Optimal regulation of bank capital and liquidity: how to calibrate new international standards", (FSA, Occasional Paper Series No 39, July 2009)

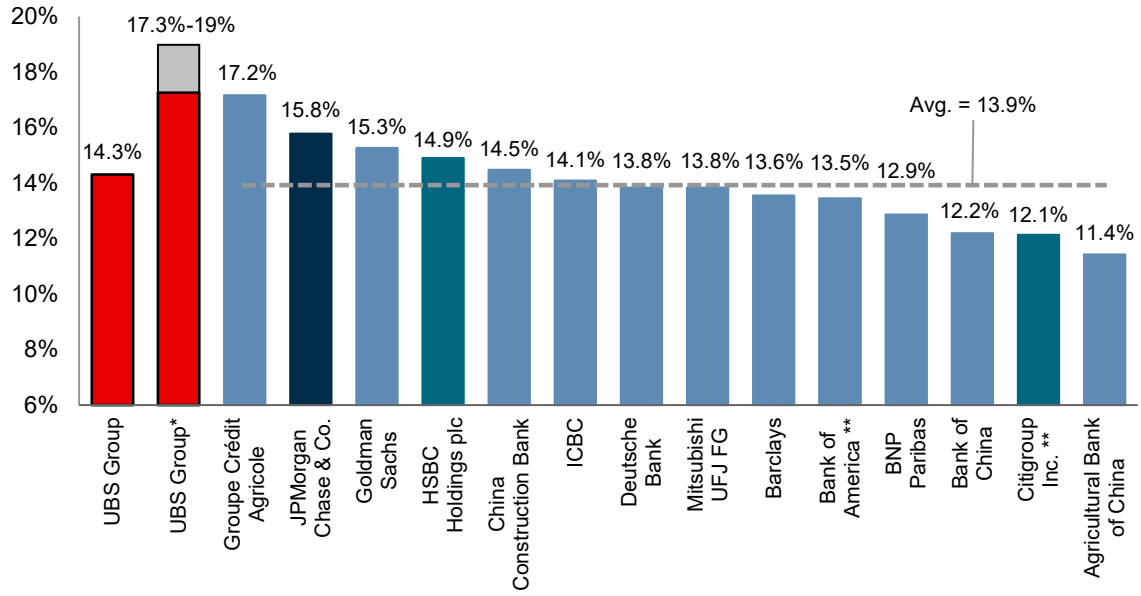

Figure 10 Comparison of CET1 Capital Ratios of Bucket 2-4 G-SIBs as per 31 December 2024.
** Includes an additional $14.7-$23.3bn (range based on assumptions described in paragraph (4) of CET1 capital representing 'Approach 3'. ** Based on the Advanced CECL Fully Phased-In approach. BoA and Citi Group also publish CET1 ratios based on the standardised CECL fully phased-in approach, which are 11.8% and 13.6% respectively.*
Dark blue: G-SIB Bucket 4. Teal: G-SIB Bucket 3. Light blue: G-SIB Bucket 2, which is also the bucket into which UBS is placed.
Sources: UBS Group - Pillar 3 Report, 31 December 2024, "UBS Group and significant regulated subsidiaries and sub-groups" p.13; Groupe Crédit Agricole - Results for the 4th Quarter and Full Year 2024, p. 85 (phase-in); JPMorgan Chase & Co – Pillar 3 Regulatory Capital Disclosures - for the quarterly period ended December 31, 2024, p. 8; The Goldman Sachs Group, Inc. – Pillar 3 Disclosures for the year ended December 31, 2024 p. 6 (advanced capital rules); HSBC Holdings plc - Pillar 3 Disclosures at 31 December 2024, p.6; China Construction Bank Corporation - Capital Management Pillar III Annual Report 2024, p. 4; Industrial and Commercial Bank of China Limited - 2024 Pillar 3 Disclosure Report of Capital Management, p.3; Deutsche Bank - Pillar 3 Report 2024, p. 9; Mitsubishi UFJ FG - Basel III Disclosure - Third Quarter of Fiscal Year Ending Mar. 2025 Key metrics, p. 1;Citigroup Inc. - Annual Report 2024, p. 37, (Standardised Approach); Barclays PLC - Pillar 3 Report 2024, p. 21; Bank of America - Pillar 3 Regulatory Capital Disclosure Advanced Approaches For the quarter ended December 31, 2024 p. 8 (Basel 3 Advanced CECL Fully Phased-in); BNP Paribas - https://invest.bnpparibas/en/
Bank of China Limited - 2024 Pillar 3 Disclosure Report p. 4; Agricultural Bank of China Limited - 2024 Pillar 3 Report p. 2; A&M Analysis

(150) On the other hand, a stronger capital position could place the bank in a better position to access capital during times of (market) stress and potentially enable it to expand lending operations when competitors are cutting back, as well capitalise on depositors' confidence. Additionally, the bank's resilience reduces the likelihood of insolvency, layoffs, or organisational restructuring, providing employees with greater job security and attracting talent from stressed competitors.

(151) A strong capital base typically signals financial health and the ability to generate sustainable returns. A study has shown that higher capital leads to a lower risk profile and increases the bank's attractiveness to investors and creditors as they perceive it as a safer investment or lending opportunity.[50]

(152) **Financing costs**: Credit ratings are positively affected by a bank's increased capital position as a higher capitalisation indicates a stronger ability to absorb losses, which reduces the likelihood of default. Based on their description of the methodology for the determination of the ratings, all credit rating agencies (Moody's[51], S&P[52], and Fitch[53]) consider a bank's capital adequacy as a critical factor in assessing its creditworthiness. This is only necessarily true if the business model survives under much tighter capital requirements than peers. However, studies indicate that there is no significant correlation between excess equity and credit ratings[54] and that large banks obtain systematically more favourable credit ratings relative to their expected default risk[55].

(153) Higher capital reserves mean the bank is relying less on borrowed funds (debt) relative to its equity, hence reducing leverage. As a reduction in leverage reduces the return on equity, it also increases the cost of equity[56]. The cost of debt should however decrease as the default risk is reduced by the deleveraging[57, 58].

(154) **Attractiveness for investors:** while increasing capital reserves reduces risk and the cost of equity, it may also lower the bank's return on equity because a larger equity base dilutes returns. This could make the bank less attractive to some investors seeking higher returns, potentially offsetting some of the benefits of a lower cost of equity.

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[50] A. Köster, J. Zimmermann, "Bank capitalization and bank performance: a comparative analysis using accounting- and market-based measures" (Jun 2017)
[51] www.moodys.com
[52] www.spglobal.com
[53] www.fitchratings.com
[54] E. Dimitrova, "Bank capitalization and credit rating assessment" (May 2016)
[55] H. Hau, S. Langfield and D. Marques-Ibanez, "bank ratings - what determines their quality?", (ECB Working Paper, Oct 2012)
[56] F. Modigliani and M. H. Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment", (1958)
[57] C.A. Molina, "Are Firms Underleveraged? An Examination of the Effect of Leverage on Default Probabilities", (2005)
[58] D. Elliott, "Quantifying the Effects on Lending of Increased Capital Requirements", (Sep 2009)

8. Appendix

8.1. UBS Legal entity structure

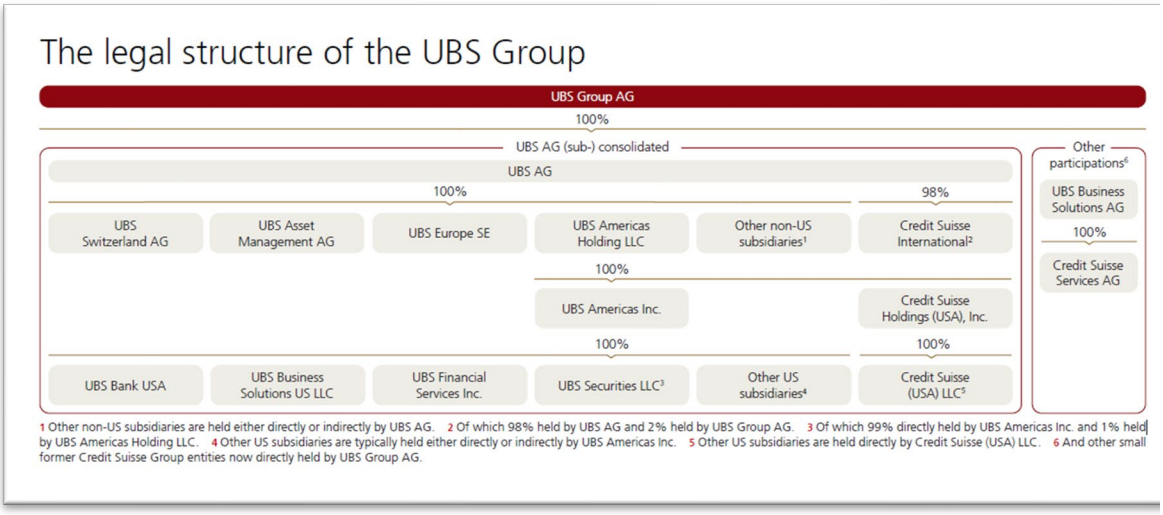

Figure 11: from "Annual Report 2024 - UBS Group" p.14

8.2. Sensitivity analysis (pre any mitigation measures)

Net CET1 capital surplus/(shortfall) ($ 'm)

	Capital requirement						
	Pillar 1 req. (4Q24)	+1%	+2%	+3%	+4%	Capital ratio (actual 4Q24)	Capital ratio (L-T 2028)
Deduction	*10.0%*	*11.0%*	*12.0%*	*13.0%*	*14.0%*	*14.8%*	*13.5%*
60.0%	9,347	5,816	2,285	(1,246)	(4,777)	(7,513)	(3,029)
65.7%	6,453	2,922	(609)	(4,140)	(7,671)	(10,408)	(5,924)
71.4%	3,558	27	(3,504)	(7,035)	(10,566)	(13,302)	(8,818)
77.1%	663	(2,868)	(6,399)	(9,930)	(13,461)	(16,197)	(11,713)
82.9%	(2,231)	(5,762)	(9,293)	(12,824)	(16,355)	(19,091)	(14,608)
88.6%	(5,126)	(8,657)	(12,188)	(15,719)	(19,250)	(21,986)	(17,502)
94.3%	(8,020)	(11,551)	(15,082)	(18,614)	(22,145)	(24,881)	(20,397)
100.0%	(10,915)	(14,446)	(17,977)	(21,508)	(25,039)	(27,775)	(23,291)

Table 27: Sensitivity analysis under various percentage deductions and CET1 capital ratios; (A&M Analysis)