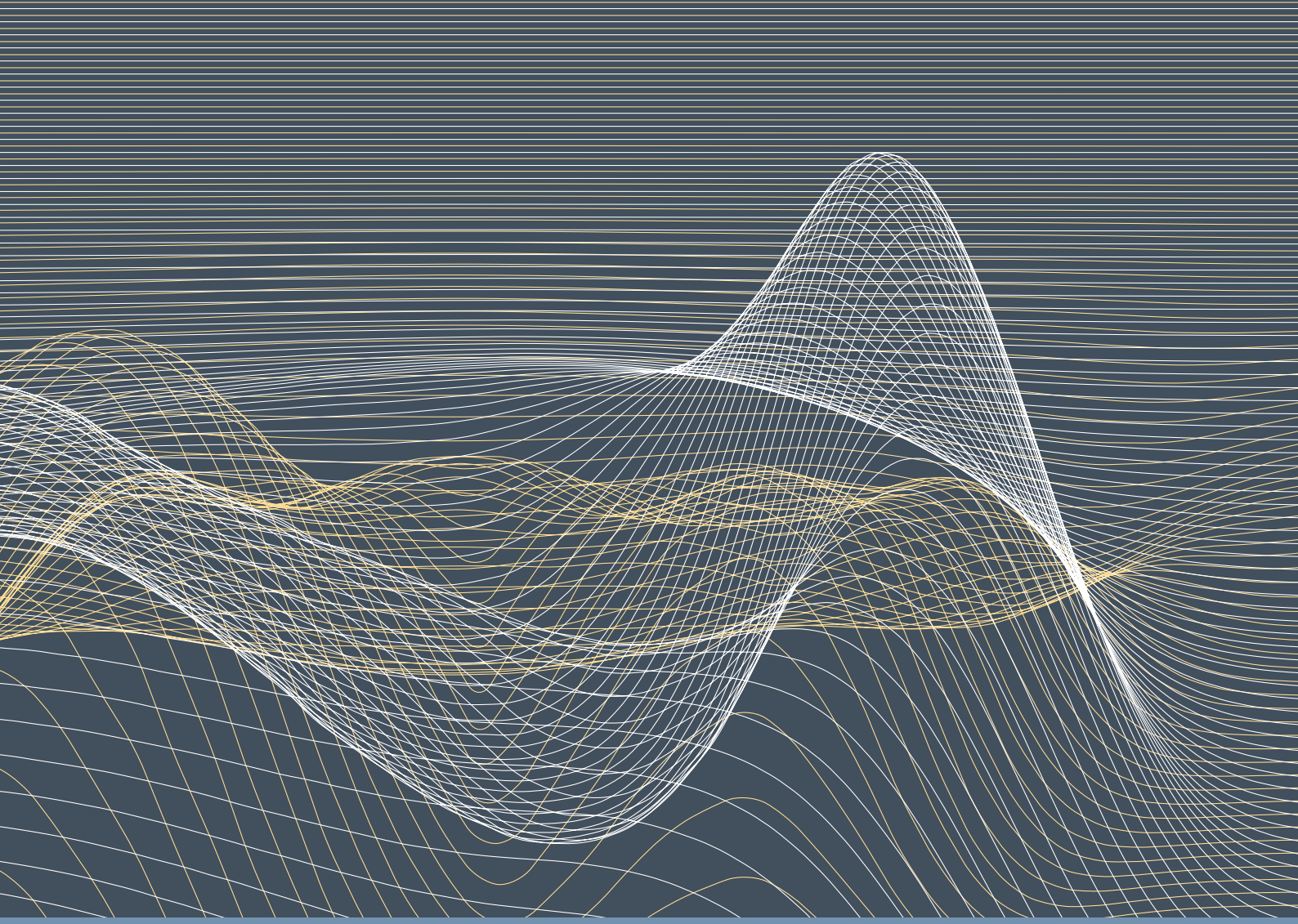


Financial Stability Report 2025

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

Financial Stability Report 2025

SNB BNS

Contents

Foreword

In this report, the Swiss National Bank presents its assessment of the stability of the Swiss financial system. The SNB contributes to the stability of the financial system in accordance with the National Bank Act (art. 5 para. 2 (e)). A stable financial system is defined as a system in which the various components fulfil their functions and are able to withstand severe shocks. The report focuses on Switzerland's banks but also contains a special topic on the size and role of non-bank financial intermediaries (NBFIs) – such as investment funds, pension funds and insurance companies – in Switzerland, including the interlinkages of Swiss banks with domestic and foreign NBFIs.

The SNB monitors developments in the banking sector from the perspective of the system as a whole. It does not, however, exercise any banking supervision. These powers lie with the Swiss Financial Market Supervisory Authority (FINMA).

This report is divided into four chapters. The executive summary is followed by chapter 2, which tracks key domestic and global risks to the Swiss banking sector, focusing on credit quality, real estate and stock markets, interest rates, and developments in the international banking sector. The Swiss real estate and credit markets are also discussed in this chapter. Chapter 3 assesses the stability of the Swiss banking sector by looking at its profitability, capitalisation, liquidity, the risks to which it is exposed, stress testing, as well as the market's assessment. The emphasis lies on the domestically focused banks – including the three domestically focused systemically important banks PostFinance, Raiffeisen Group and Zürcher Kantonalbank (ZKB) – and on UBS. Domestically focused banks comprise banks with a share of domestic loans to total assets exceeding 50% or with a prominent role in the domestic deposit market. Chapter 4 presents a special topic on NBFIs in Switzerland.

The banking statistics used in this report are based on official data submitted to the SNB and on data published by individual banks. Bank data is predominantly analysed at a consolidated level, i.e. banks within a group and banks legally obliged to provide assistance to each other are treated as a financial group. This document is based on data as at 31 May 2025.

A list of all abbreviations used in this report is provided at the end of the document. A glossary of technical terms can be found on the SNB's website at www.snb.ch/glossary.

1 Executive Summary

Macroeconomic and financial environment
Since the publication of the last Financial Stability Report in June 2024, economic and financial conditions relevant for the Swiss financial sector have deteriorated, in particular as a result of tensions in international trade and the associated uncertainty.

Overall, global economic growth has been moderate, with quite solid growth in the US and China, and moderate growth in the euro area and Switzerland. Inflation still lies above central banks' targets in many advanced economies and long-term interest rates remain at relatively high levels. By contrast, in Switzerland, both inflation and long-term interest rates have returned to low levels over the past year.

As a result of tensions in international trade, volatility in foreign exchange, stock and bond markets increased substantially in spring 2025. In this environment, global stock prices declined strongly before recovering again. Furthermore, global corporate credit risk premia rose temporarily from historically low levels. Against the backdrop of higher global interest rates and subdued growth in recent years, corporate default rates have increased from low levels and are near historical averages, including in Switzerland. Global residential real estate prices have increased and the decline in commercial real estate prices has come to a halt. In Switzerland, residential real estate price growth has picked up.

In the Swiss credit market, credit volumes have continued to increase and momentum has picked up following the decline in interest rates – despite structural changes in the banking sector following the acquisition of Credit Suisse by UBS in 2023 and the in-depth revision of the rules governing banks' capital requirements that took effect in 2025 (introduction of Basel III Final).

The economic and financial outlook is highly uncertain, in particular due to trade policy and geopolitical tensions. In addition, several risk factors could amplify the impact of potential negative shocks on global economic and financial conditions. First, public debt has climbed back to near historical peaks globally. Second, valuations in global residential real estate, in global corporate bonds and in the US stock market still appear stretched. In Switzerland, the current interest rate environment might contribute to an increase in risk-taking and a further build-up of the vulnerabilities in the mortgage and residential real estate markets.

The SNB takes account of these risk factors when designing the scenarios used in its stress tests. For example, the potential consequences of escalating tensions in international trade, of a rise in geopolitical tensions or of an increase in sovereign stress are captured by several scenarios which feature different developments in inflation and interest rates. In general, the SNB scenarios assume highly unfavourable developments that are unlikely but possible, and cover a broad spectrum of relevant macroeconomic and financial risk factors. Stress testing allows for an assessment of how adverse macroeconomic and financial developments would affect individual banks' earnings and capital situation. In addition to their exposure to adverse macroeconomic and financial developments, banks are also exposed to operational risks such as legal, cyber and outsourcing risks.

Banking sector
For the Swiss banking sector as a whole, profitability improved year on year in 2024,[1] driven by UBS, while capital ratios remained broadly stable. Available capital buffers reflect significant loss-absorbing and lending capacity. In addition, banks hold substantial liquidity buffers, which also contribute to their resilience. The situation regarding profitability, risk exposure and resilience is heterogeneous across banks and bank categories, however. Moreover, while capital and liquidity buffers of most banks currently appear substantial, weaknesses in the regulatory framework have been identified. These weaknesses should be addressed in order to further strengthen the resilience of the financial system (cf. 'Key policy developments').

Domestically focused banks
Against the backdrop of the interest rate environment in Switzerland, the profitability of domestically focused banks declined in 2024 – driven by reduced net interest income, reflecting a narrowing of their interest rate margin. An increase in operating costs further contributed to the decline. At the same time, these banks' regulatory capital ratios remained broadly stable and well above requirements overall.

The SNB's stress tests suggest that, thanks to their capital buffers, domestically focused banks should be able to absorb the economic impact of relevant adverse scenarios. Given their exposures, these banks are primarily vulnerable to a significant rise in interest rates coupled with price corrections in the domestic real estate market. However, most of these banks would be able to absorb the sizeable losses incurred, even in the absence of counteracting measures such as reducing lending or building up capital. The sectoral countercyclical capital buffer (CCyB), which requires banks to hold additional capital when cyclical risks exist, plays an important role in this respect. The sectoral CCyB is currently set at the legal maximum level, as defined in the Capital Adequacy Ordinance.

1 Excluding UBS's negative goodwill for 2023.

Systemically important banks
For the three domestically focused systemically important banks (domestically focused SIBs) – PostFinance, Raiffeisen Group and Zürcher Kantonalbank (ZKB) – profitability also decreased in 2024. While lower net interest income was a driver of the decline in profitability at all three banks, PostFinance additionally reported higher credit loss expenses related to loans and bonds in its investment portfolio. The capital situation varies between the three domestically focused SIBs. For Raiffeisen Group and ZKB, their risk-weighted capital ratios and leverage ratios were significantly above regulatory requirements at end-2024. For PostFinance, the risk-weighted capital ratio was also significantly above regulatory requirements, while the leverage ratio was only slightly so.

UBS's profitability – excluding negative goodwill – increased in 2024 compared to the previous year due to higher revenues across divisions. At the same time, the additional cost burden from the ongoing integration of Credit Suisse weighs on the bank's profitability. After completing the integration and restructuring programme by the end of 2026, UBS expects to generate substantial profits, thus strengthening the first line of defence for absorbing losses in a potential stress event.

As regards capital, the second line of defence for absorbing losses, UBS already meets the fully applied (pro forma) 'too big to fail' (TBTF) capital requirements applicable as of 2030. These fully applied requirements reflect the bank's increased systemic importance as a result of its merger with Credit Suisse. In addition to a group's capital ratios, the parent bank's standalone capital ratios also play an important role in ensuring trust in the overall resilience of a bank. Under the current regulatory treatment, a parent bank's participations in its subsidiaries are only partially backed by capital. Therefore, standalone capital ratios of the parent bank overestimate its true resilience and are thus vulnerable to impairments of these participations (cf. SNB Financial Stability Report 2024). It is important to address this regulatory weakness and introduce further policy measures as proposed by the Federal Council (cf. 'Key policy developments'), also because the loss potential for UBS under the various SNB stress scenarios remains substantial.

Key policy developments
The crisis at Credit Suisse highlighted weaknesses in the regulatory framework (cf. SNB Financial Stability Report 2024). In order to address these weaknesses, the Federal Council has proposed a package of measures in the area of crisis prevention and crisis management.[2] These include strengthening the Swiss regulations based on forward-looking assessments such as stress tests and market-based indicators, strengthening early intervention options for the supervisory authority, as well as addressing both weaknesses in the capital framework and the potentially high liquidity needs of banks in a crisis. The SNB supports this package of measures.

Regarding capital, the measures proposed by the Federal Council are aimed at further strengthening financial stability in Switzerland. Reflecting a key lesson from the crisis at Credit Suisse, the Federal Council has recommended, in particular, strengthening the capital requirements for the parent bank within a banking group. Specifically, a parent bank's participations in its foreign subsidiaries will have to be fully deducted from its Common Equity Tier 1 (CET1) capital. From a financial stability perspective, this approach is the best solution to ensure full capital backing of the foreign participations and thus robust capitalisation of the parent bank.

Regarding liquidity, experience from 2022 – 2023 in Switzerland and the US shows that liquidity outflows can be very high and rapid in a crisis. It is therefore important not only to strengthen banks' own liquidity buffers, but also to require banks to improve their liquidity situation through complementary measures. In the event of a loss of confidence, outflows can rapidly deplete liquidity buffers even if these are high. Some banks may also face the risk of liquidity shortfalls in specific foreign currencies. It is essential that banks address this risk in their contingency funding plans through the preparation of collateral eligible for accessing liquidity support from the SNB and from foreign central banks. So far, banks have not exhausted this potential. In order to increase Swiss banks' resilience to liquidity shocks, the Federal Council has proposed, for example, minimum requirements for collateral preparation as well as the introduction of a public liquidity backstop (PLB) in Switzerland.

Non-bank financial intermediaries

Besides banks, non-bank financial intermediaries (NBFIs) also play a significant role in the domestic financial sector. The Swiss NBFI sector as a whole is large and its growth has outpaced that of the banking sector since the global financial crisis. The NBFI sector encompasses investment funds, pension funds, insurance companies, mortgage bond institutions, securities firms and other players.

NBFIs provide financial services to individuals and companies, thereby enabling efficient capital allocation and risk diversification and stimulating financial innovation. On the other hand, NBFIs may be a source of risk to financial stability – especially if they are exposed to liquidity risks through their engagement in maturity or liquidity transformation, or if they are materially leveraged. Globally, NBFIs have repeatedly amplified or even triggered financial turbulence over recent decades.

2 Cf. Federal Council report on banking stability, 10 April 2024, and Federal Council press release, 'Federal Council draws lessons from Credit Suisse crisis and defines measures for banking stability', 6 June 2025.

The subset of Swiss NBFIs that are exposed to such bank-like vulnerabilities is relatively small. However, the extent of leverage and liquidity risk varies significantly across individual NBFIs. Moreover, interlinkages between Swiss banks and both domestic and foreign NBFIs are material.

Going forward, more and better data is needed for assessing financial stability risks from NBFIs in Switzerland. Future work should be directed at the identification and assessment of the economic importance of NBFIs, their risk profile – with a focus on liquidity risk and leverage – and their interconnection with the banking sector. Such an assessment of the vulnerabilities stemming from the non-bank financial sector will help in designing policies aimed at mitigating these vulnerabilities.

2 Macroeconomic and financial environment

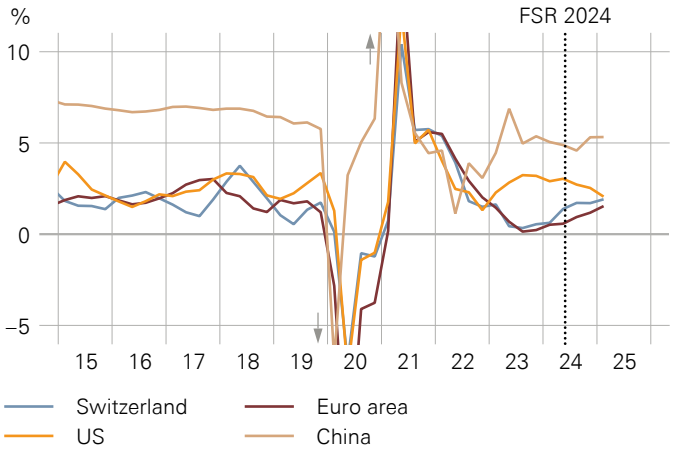
2.1 KEY DEVELOPMENTS

Global economic growth has been moderate
Overall, global economic growth has been moderate over the past 12 months, but developments across economies have been rather heterogeneous (cf. chart 2.1). Growth has proven to be quite solid in the US and China, while growth dynamics in the euro area and Switzerland have been moderate. The global economic outlook is highly uncertain, in particular due to trade policy and geopolitical tensions.

Inflation still above targets in many advanced economies and long-term interest rates at relatively high levels – Switzerland an exception
Global inflation has continued to decline, but at a slower pace than in the previous year. Whereas inflation is still above central banks' targets in many advanced economies, in Switzerland it has decreased significantly and is close to zero (cf. chart 2.2).

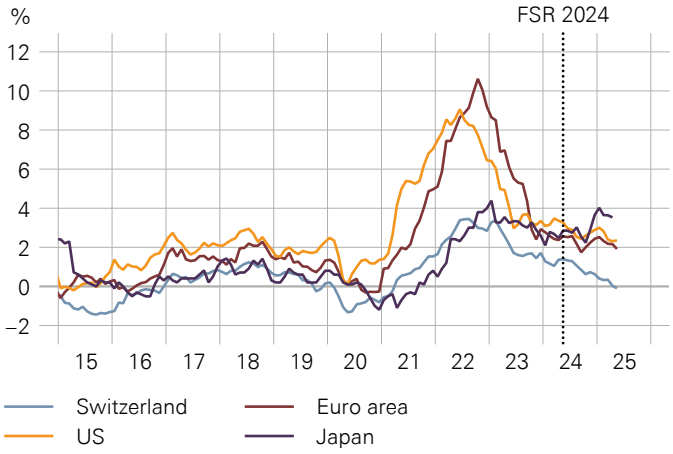
While short-term interest rates have declined globally, long-term interest rates have remained elevated in many advanced economies, at similar levels to when the last Financial Stability Report was published. By contrast, long-term interest rates in Switzerland have decreased and are close to zero. Globally, long-term interest rates have fluctuated significantly, partly due to trade policy tensions. Uncertainty about their future development, as measured by implied volatility, has remained elevated by historical comparison (cf. chart 2.3). Furthermore, trade policy tensions have increased volatility in the foreign exchange market too.

GDP GROWTH
Year-on-year real GDP growth rates — Chart 2.1



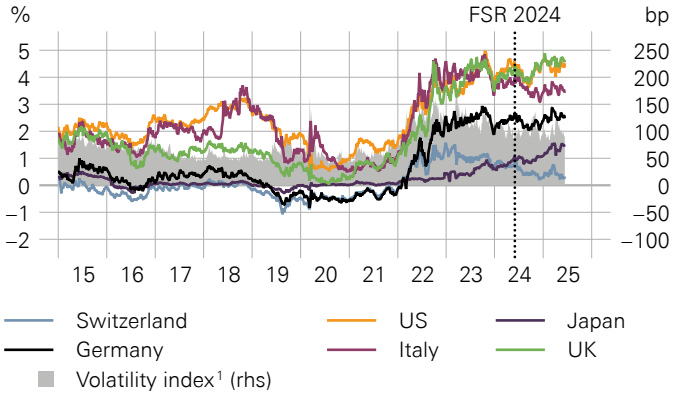
Source(s): LSEG Datastream, SECO

INFLATION
Consumer prices, year-on-year change — Chart 2.2



Source(s): LSEG Datastream, SFSO

LONG-TERM INTEREST RATES
Ten-year government bonds — Chart 2.3

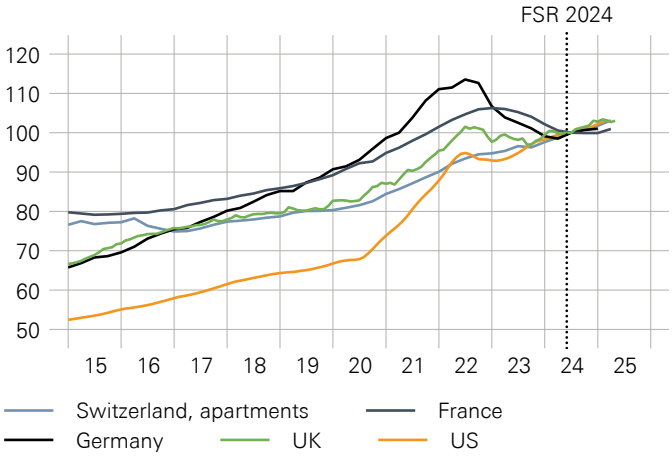


1 The index used is the MOVE Index, which measures the implied volatility of US Treasury options.

Source(s): Bloomberg, LSEG Datastream, LSEG Eikon

RESIDENTIAL REAL ESTATE PRICE INDICES

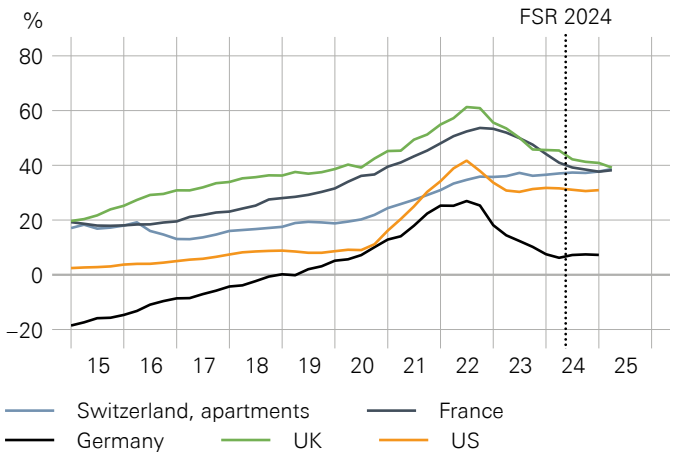
In nominal terms, 31 May 2024 = 100 — Chart 2.4



Source(s): LSEG Datastream, Wüest Partner

RESIDENTIAL REAL ESTATE PRICE-TO-RENT RATIOS

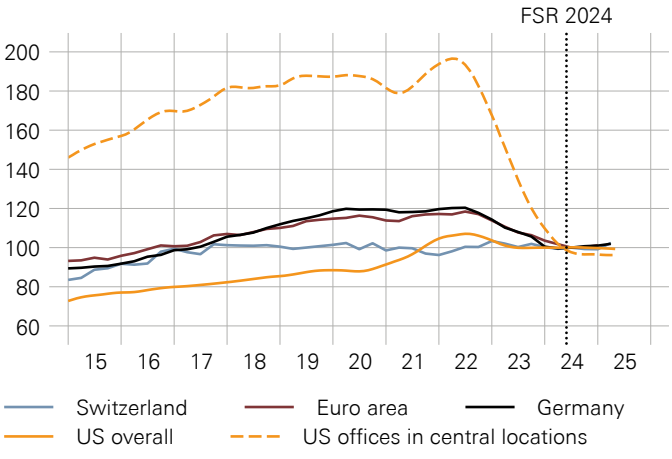
Deviation from average since 1970 — Chart 2.5



Source(s): LSEG Datastream, OECD, SFSO, Wüest Partner

COMMERCIAL REAL ESTATE PRICES

In nominal terms, 31 May 2024 = 100 — Chart 2.6



Source(s): BIS, LSEG Datastream, Wüest Partner

Vulnerabilities in real estate markets persist

Globally, residential real estate prices have increased over the past 12 months at moderate rates (cf. chart 2.4). In Switzerland, price growth has picked up (cf. subchapter 2.2). The residential price-to-rent ratio, a measure of real estate valuation, lies significantly above its long-term average in many countries, including Switzerland, pointing to elevated vulnerabilities (cf. chart 2.5).

Global commercial real estate prices have bottomed out (cf. chart 2.6). Transactions in this segment picked up notably in the fourth quarter of 2024, having been at a low last seen during the global financial crisis. However, many investors are waiting for more favourable conditions to sell their properties, rather than realise losses.[1] In Switzerland, prices in the commercial real estate segment have continued to move sideways (cf. subchapter 2.2).

Amid trade policy tensions, temporary rise in credit spreads

Financial market indicators provide a favourable assessment of credit quality. In spring 2025, global corporate credit risk premia increased temporarily from historically low levels (cf. chart 2.7). They are currently somewhat below the values observed when the last Financial Stability Report was published. Given the uncertain environment, valuations appear stretched.[2] Sovereign credit risk premia are at similar levels to 12 months ago with some heterogeneity across countries (cf. chart 2.8). While the ratio of corporate credit rating downgrades to total rating changes has declined (cf. chart 2.9), indicating improving credit quality, rating data available until the first quarter of 2025 does not yet reflect the most recent developments in trade policy tensions. Among the G20 economies, a number of emerging market economies and Italy have received an upgrade to their credit rating from at least one of the three major rating agencies, whereas France and the US have been downgraded.

Other indicators point to a moderate deterioration in global credit quality. This is due to the fading out of pandemic support measures and to the negative effects on credit quality resulting from higher interest rates and subdued economic growth in recent years. In particular, corporate bankruptcies have increased globally from low levels and banks' non-performing loan ratios for this segment have also deteriorated somewhat.[3] In the US, delinquency rates on consumer debt have edged upwards.[4]

1 Cf. ECB, Financial Stability Review, May 2025, pp. 30–31, and Board of Governors of the Federal Reserve System, Financial Stability Report, April 2025, pp. 11–13.
2 IMF, Global Financial Stability Report, April 2025, pp. 25–26.
3 Cf. IMF, Global Financial Stability Report, April 2025, p. 26, and ECB, Financial Stability Review, May 2025, p. 54.
4 Cf. Board of Governors of the Federal Reserve System, Financial Stability Report, April 2025, pp. 24–25.

Global sovereign debt is near historical peaks (cf. chart 2.10). After temporarily declining from the heights recorded during the pandemic, sovereign debt relative to GDP has started to increase again. Global corporate debt also remains historically high. High debt levels increase vulnerabilities to future interest rate increases.

In Switzerland too, corporate credit spreads are at similar levels to 12 months ago. Corporate bankruptcy rates have increased and are now close to historical averages. The high level of private debt relative to GDP, as well as affordability risks at commercial borrowers, represent relevant vulnerabilities (cf. subchapters 2.2 and 3.4.1).

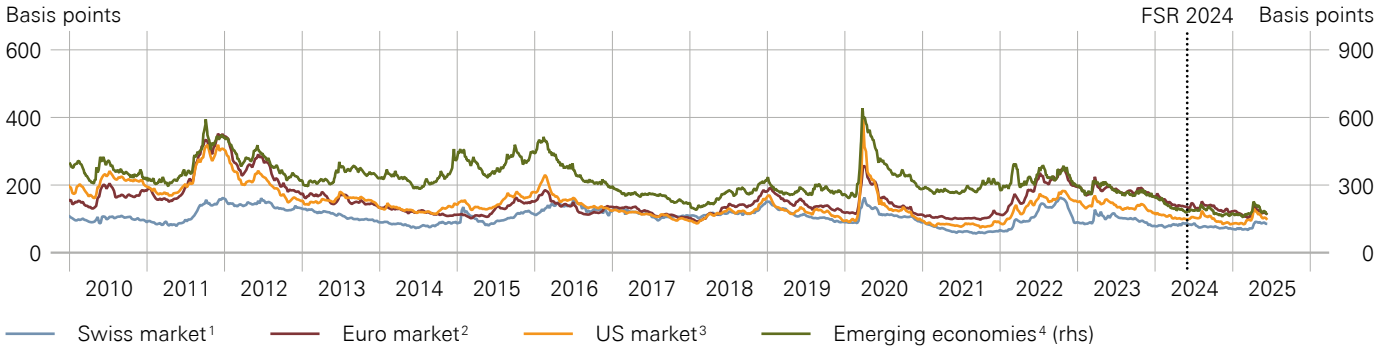
High volatility in global stock prices in response to international trade policy tensions

Global stock prices have responded strongly to the international trade policy tensions (cf. chart 2.11). In the US, the associated sharp decline in spring 2025 offset the substantial gains achieved in the second half of 2024. Since then, as the initially announced trade tariffs for some countries were temporarily reduced, stock prices have increased again. Stock prices in the euro area, the UK and Switzerland have experienced similar movements to those in the US since March 2025. As a result, global stock prices are now slightly higher than 12 months ago. Stock market volatility, as measured by the VIX index, has increased considerably.

While the cyclically adjusted price-to-earnings ratio (cf. chart 2.12), a measure of stock valuation, still lies significantly above its long-term average for the US, it is

BOND SPREADS

Yield spread between corporate and government bonds — Chart 2.7

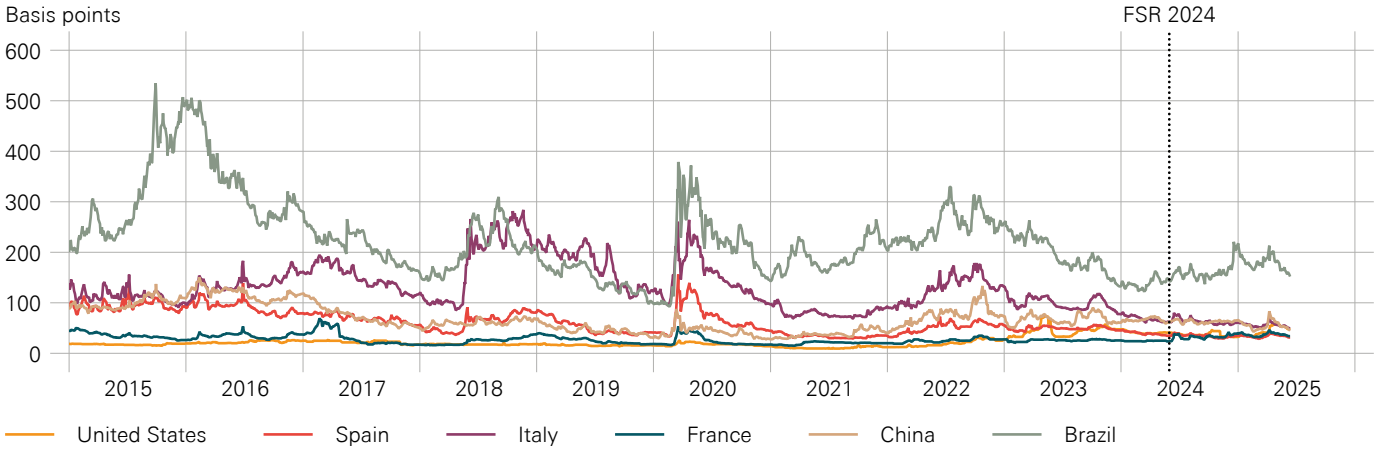


1 Yields for Swiss investment-grade corporate bonds and for Swiss Confederation bonds (5-year maturity), calculated by the SNB.
2 Euro-Aggregate Corporate (investment grade, 5 to 7-year maturity, EUR-denominated) and German Government (5 to 7-year maturity), Bank of America.
3 US Corporate (investment grade, 5 to 7-year maturity, USD-denominated) and US Treasury (5 to 7-year maturity), Bank of America.
4 Emerging Economies Corporate (USD and EUR-denominated), option-adjusted spread, Bank of America.

Source(s): LSEG Datastream, LSEG Eikon, SNB

SOVEREIGN CREDIT DEFAULT SWAP PREMIA

Premia for credit protection (five-year senior) — Chart 2.8



Source(s): Bloomberg, LSEG Eikon

close to its average in the euro area. For Switzerland, this indicator lies somewhat above its long-term average.

Stable credit risk premia for global banking sector

Amid elevated volatility in financial markets, credit default swap (CDS) premia – market indicators of bank credit risk – have remained relatively stable for the largest banks and are well below historical averages (cf. chart 2.13). Global bank stock prices overall performed better than the general stock market, albeit with a temporary drop in April 2025.

Current global environment carries risks for financial stability

The economic and financial outlook is highly uncertain, in particular due to trade policy and geopolitical tensions. In addition, several risk factors could amplify the impact of potential negative shocks on global economic and financial conditions. First, public debt has climbed back to near historical peaks globally. Second, valuations in global residential real estate, in global corporate bonds and in the US stock markets still appear stretched. In Switzerland, the current interest rate environment might contribute to an increase in risk-taking and a further build-up of the vulnerabilities in the mortgage and residential real estate markets.

2.2 SWISS REAL ESTATE AND CREDIT MARKETS

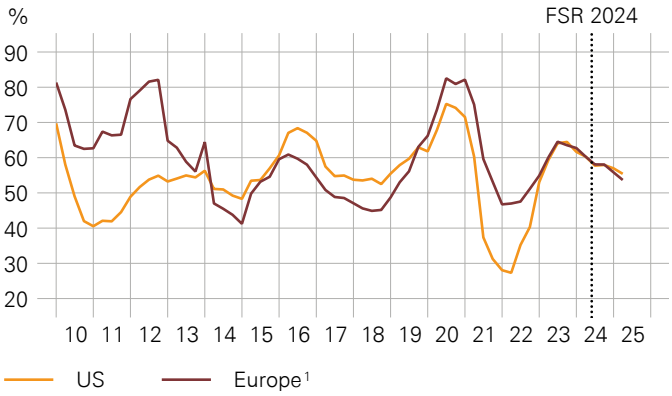
Against the backdrop of lower interest rates compared to 2023, signs of a pick-up in growth rates for real estate prices and for credit and mortgage volumes in Switzerland have emerged over recent quarters. Vulnerabilities in the Swiss mortgage and residential real estate markets persist.

Vulnerabilities in residential real estate market persist

Residential real estate price growth since the first quarter of 2024 has remained lower than in 2021/2022, but there are

RATING DOWNGRADES RATIO

Number of downgrades relative to total rating changes in non-financial sector, moving average over four quarters — Chart 2.9

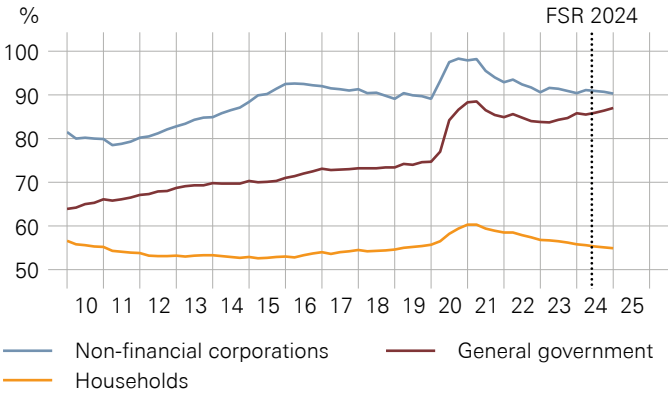


1 EU-17 countries plus Switzerland, Norway and Iceland.

Source(s): Moody's

GLOBAL DEBT-TO-GDP RATIO[1]

Chart 2.10

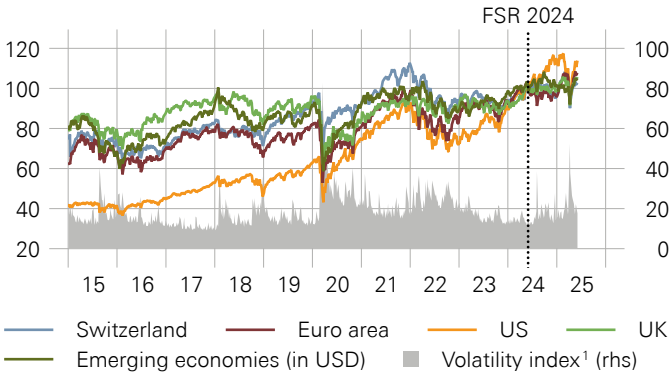


1 All reporting countries. Aggregate based on conversion to USD at purchasing power parity exchange rates.

Source(s): BIS

STOCK MARKET INDICES

Datastream global indices (31 May 2024 = 100) and volatility — Chart 2.11

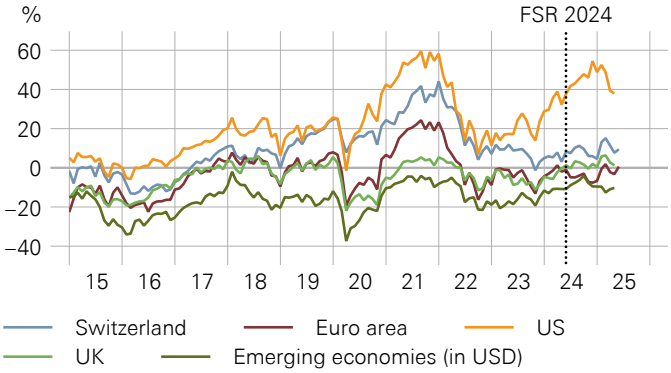


1 The index used is the VIX index, which measures the implied volatility of index options on the S&P 500 (in %).

Source(s): Bloomberg, LSEG Datastream

CYCLICALLY ADJUSTED PRICE-TO-EARNINGS RATIO

Deviation from average;[1] Datastream global indices — Chart 2.12



1 The average of earnings is calculated using a ten-year moving average. The average of the price-to-earnings ratio is calculated over the full period since 1985, or since data became available.

Source(s): IMF, LSEG Datastream

signs of a pick-up in growth rates. Year-on-year transaction price growth for single-family houses increased from 1.6% in Q1 2024 to 4.7% in Q1 2025, and for apartments from 3.6% to 4.4%.[5] For the residential investment property segment, year-on-year transaction price growth was up from 2.0% in Q1 2024 to 2.6% in Q1 2025.[6] The different price indices for the residential investment property segment have developed heterogeneously since the increase in interest rates in 2022 and 2023; overall, prices appear to have moved sideways in this segment since then.

Vulnerabilities persist in both the owner-occupied and investment property segments of the residential real estate market. Overall, these vulnerabilities have not changed significantly since Q1 2024. While they have increased slightly in the owner-occupied segment, they have decreased somewhat in the investment property segment.

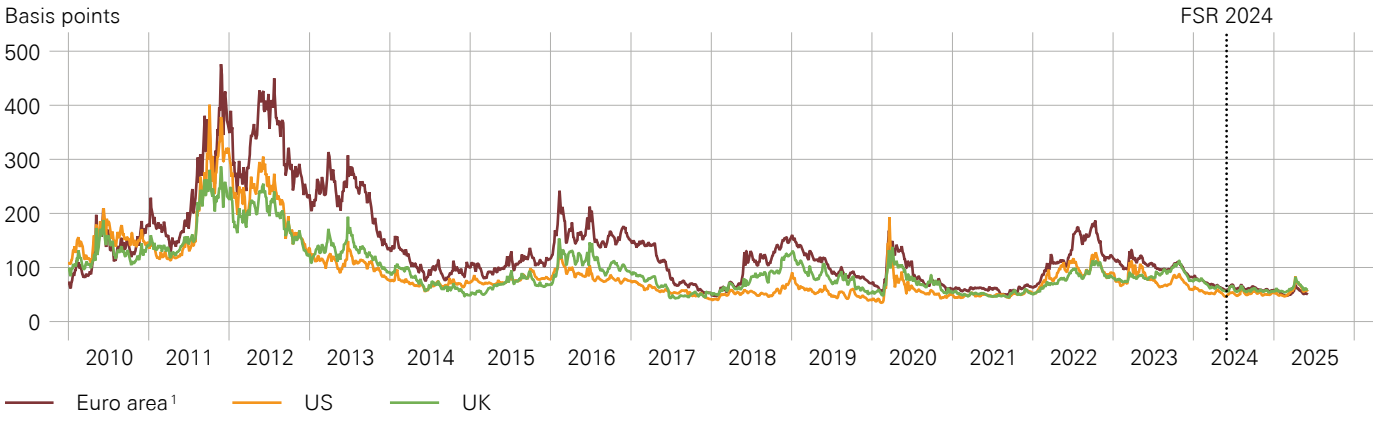
This assessment is based on a broad set of valuation metrics that have historically proven to be reliable early warning indicators for systemic crises both in Switzerland and abroad. These metrics measure the gap between the levels of observed real estate prices and levels which can be explained by fundamental factors in various ways. For the apartment segment, for example, current prices are 15–40% above the fundamental levels implied by simple indicators (such as the ratios of price to rent or price to per capita GDP) as well as model-based indicators (such as the econometric model or the 'user cost' model; cf. chart 2.14).[7] However, uncertainty regarding the

5 Source: Wüest Partner. According to the Swiss Federal Statistical Office (SFSO) indices, year-on-year price growth increased from 0.5% in Q1 2024 to 3.6% in Q1 2025 for single-family houses, and from 2.4% to 4.6% for apartments.
6 Source: Wüest Partner.

7 Cf. SNB Financial Stability Report 2024, p. 16, for a detailed description of the different valuation indicators.

BANK CDS PREMIA

Average of largest banks (five-year senior) — Chart 2.13

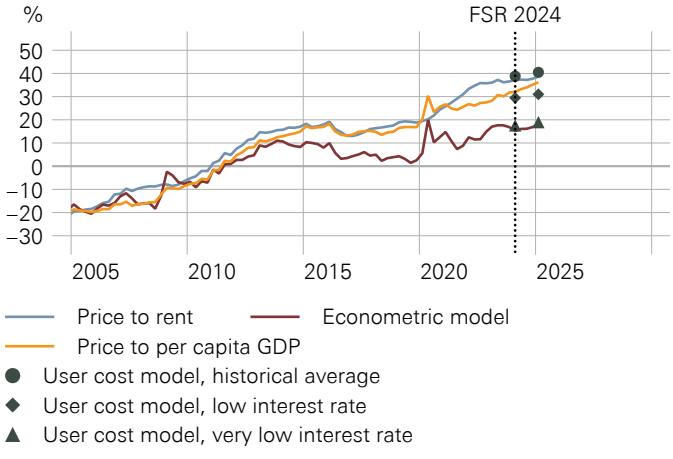


1 France, Germany, Italy, the Netherlands and Spain.

Source(s): Bloomberg, LSEG Eikon, SNB calculations

APARTMENTS: VALUATION INDICATORS

Deviation from indicator-implied price levels — Chart 2.14



Source(s): SECO, SFSO, SNB, Wüest Partner

appropriate valuation level of real estate according to these indicators and models is high.

It is important to bear in mind that due to data limitations these figures may overestimate vulnerabilities in the domestic residential real estate market. The figures do not capture all supply and demand factors that can affect the residential real estate market. For example, the high and rising share of already built-up residential areas, coupled with slow advances in high-density construction, has contributed to the tightness of supply.[8] At the same time, growth in the number of households has generally been higher than population growth in recent years, as the average household size has decreased. In the absence of sufficiently long time series, the impact of these supply and demand factors cannot be fully modelled.

The metrics presented here do not reflect the likelihood of a price correction in the short run. Instead, they are indicative of the potential scale of price corrections. Experience shows that gaps between the levels of observed real estate prices and levels which can be explained by fundamental factors tend to vanish over the medium to longer term – sometimes involving abrupt real estate price adjustments.

Risks in residential investment property higher than in owner-occupied segment

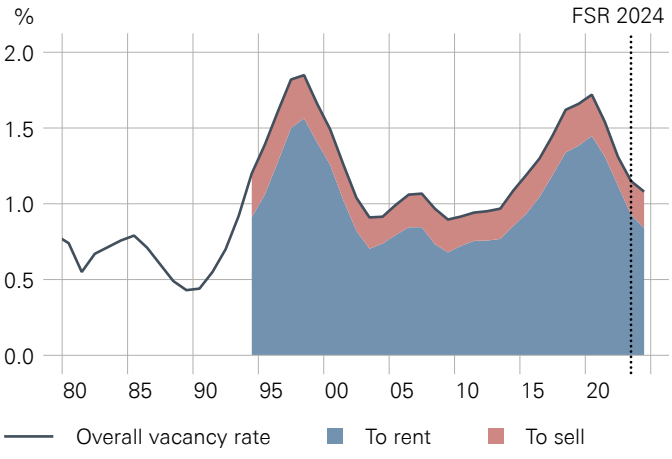
Although vulnerabilities are visible across all segments of the residential real estate market, the potential magnitude of price corrections appears to be greatest in the investment property segment. The following factors contribute to this assessment.

First, vulnerabilities are high and at similar levels to those in the owner-occupied segment.

8 Cf., for example, Raiffeisen Group, Immobilien Schweiz, Q2 2024.

RESIDENTIAL VACANCY RATE

Vacant dwellings relative to total number of dwellings — Chart 2.15



Source(s): SFSO

Second, yield considerations are likely to play a much larger role in this segment than in the owner-occupied segment, making it more sensitive to changes in interest rates. The spread between yields on residential investment property and risk-free longer-term interest rates measures the risk premium investors demand for investing in real estate. If a rise in longer-term interest rates were to compress this spread more strongly or more persistently than in 2022 and 2023, yields for residential property investments would have to increase considerably in order for real estate to remain attractive for investors and compensate them for the risk taken. Such an increase would require significantly lower prices, significantly higher rents, or a combination of both. While declining vacancies (cf. chart 2.15) suggest that increasing rents would contribute to the adjustment, the upward potential for rents appears too small to restore risk premia entirely. This implies that a substantial price decline would likely be part of the adjustment.[9]

Third, experience shows that in a downturn, commercial investors with limited liability, such as real estate companies, default on their debt more quickly than private property owners, who are liable with all their assets (cf. SNB Financial Stability Report 2023, p. 17, and 2022, p. 36). This can lead to a surge in fire sales and amplify potential price corrections in the residential investment property segment.

Conditions in commercial real estate segment broadly unchanged

Conditions in the commercial segment appear to have remained broadly unchanged overall.[10] First, price indices, which have moved sideways since 2019, have shown no trend change since the increase in interest rates in 2022 and 2023. Second, the rental market for commercial real estate does not point to a deterioration either. Rent indices present a heterogeneous picture. The share of premises advertised for rent has decreased since 2022 for the office segment and has remained broadly constant for the retail segment. Subdued construction activity contributed to these developments.[11] However, the decrease in advertised premises also suggests that there is no oversupply in this market.[12]

In contrast to the residential real estate segment, there is no clear evidence of cyclical vulnerabilities for the commercial real estate segment, as measured for example by deviations from fundamental values. In particular,

9 For example, an increase in net yields from 3% to 4% would require net rental income to increase by 33%, prices to decrease by 25%, or a combination of increasing net rental income and decreasing prices.
10 Data availability for the commercial real estate segment is more limited than for the residential segments. For example, there are fewer price indices available for the commercial real estate segment than for the residential segments, and those that exist are more volatile and based on fewer observations.
11 Cf., for example, Wüest Partner, Immo-Monitoring 2025/2, chapter 'Baumarkt', and Fahrländer Partner, FPREview Q1 2025, pp. 40 and 51.
12 While some vacancy rate estimates for the Swiss commercial segment have signalled increasing vacancy rates over recent quarters, they are still at moderate levels overall (cf. Fahrländer Partner, Metaanalyse Immobilien Schweiz, April 2025, p. 8).

commercial real estate prices increased less during the prolonged low interest rate period that began in 2008.

Nevertheless, the commercial real estate market is not necessarily shielded from potential price corrections and can pose risks to financial stability. Compared to the residential real estate segment, the commercial segment tends to be more sensitive to the business cycle. Moreover, while banks' exposure to commercial mortgages is smaller than their exposure to residential mortgages, loss rates in real estate crises tend to be higher in the commercial segment, reflecting structurally elevated risks. Limited liability of investors, similar to the residential investment property segment, plays an important role for these higher loss rates. This structurally elevated risk is partly accounted for by regulation, as commercial real estate loan exposures need to be backed with more capital.

Mixed signals on vulnerabilities in credit market

Year-on-year credit growth in the Swiss banking sector as a whole has picked up and points to a robust development overall (cf. box 'Swiss credit market: Robust dynamics despite structural shift and regulatory changes' in this subchapter). Total bank lending growth increased from 2.1% in Q1 2024 to 2.2% in Q1 2025. The increase was visible for households,[13] which make up 64% of total bank loans in Switzerland, as well as for companies in the real sector,[14] which make up 28%. Growth in mortgages in the Swiss banking sector, which account for 86% of total bank loans, increased slightly to 2.8% in Q1 2025 (from 2.3% in Q1 2024).[15]

As credit and mortgage volumes increased in line with GDP, the credit-to-GDP and mortgage-to-GDP ratios were broadly stable between Q1 2024 and Q1 2025. The same is true for the difference, or 'gap', between these ratios and their respective long-term trend – a measure of vulnerability. While the ratios are high by historical standards, the gaps remain negative as the ratios have been growing at a slower rate than their respective long-term trend.

With regard to credit quality, signs of elevated affordability risks as measured by the loan-to-income (LTI) ratio persist (cf. subchapter 3.4.1). While for households, evidence from tax data suggests that financial resilience is higher and has deteriorated less than the LTI figures indicate (cf. SNB Financial Stability Report 2022, pp. 35–36), no comparable data is available for commercial borrowers.

Mild reaction of Swiss real estate and credit markets to interest rate increase despite vulnerabilities – close monitoring remains important

As at the global level, the reaction of the Swiss real estate and credit markets to the increase in interest rates in 2022 and 2023 has been mild. The rise in interest rates has not led to a correction of the vulnerabilities that have built up over the past 15 years (cf. recent SNB Financial Stability Reports).

Various factors may explain this muted response in Switzerland. First, the peak market interest rate in 2023 remained significantly below the imputed or assumed stressed interest rates typically applied by credit officers when evaluating borrowers' creditworthiness and setting credit limits. Second, several elements – also at play in other countries – may have supported real estate prices. These elements include an incomplete pass-through of market rates to effective loan rates paid by borrowers, strong population growth, a low unemployment rate, robust household finances overall, and the willingness of households to spend more on housing since the pandemic. With respect to the commercial segment, demand for office space does not appear to have decreased significantly in response to the rise in remote work. Lastly, macroprudential measures, which have maintained or increased the resilience of banks and borrowers, have likely also contributed to this muted response.

Going forward, the current interest rate environment in Switzerland might contribute to an increase in risk-taking and a further build-up of the vulnerabilities in the mortgage and residential real estate markets. As a result, close monitoring of these markets remains important.

13 In contrast to mortgage loans, consumer credit and other liabilities play a minor role in Swiss households' aggregate liabilities. The combined volume of consumer credit and leasing debt according to the Central Office for Credit Information (Zentralstelle für Kreditinformation) amounted to around 2% of households' loan liabilities at end-2024.

14 Private non-financial sector.

15 The mortgage growth calculations account for corrections made at bank level. Consequently, they may deviate from information published on the SNB's data portal, data.snb.ch. Mortgage growth at insurers (excluding reinsurers) amounted to –1.6% in 2024. At pension funds, for which the latest available figures are for the year 2023, mortgage growth was 7.9%. The overall market share of non-banks, i.e. insurers and pension funds, in outstanding domestic mortgages remained small – at around 3% for insurers and around 2% for pension funds in 2023.

Swiss credit market: Robust dynamics despite structural shift and regulatory changes

The Swiss credit market has been facing notable changes over the past few years. Besides the first significant interest rate increase in more than 15 years, two major changes can be singled out: first, the acquisition of Credit Suisse by UBS, both key players in the domestic credit market, and more recently, the introduction of the final Basel III standards (Basel III Final). Overall, the domestic credit market has proved resilient to these changes.

The acquisition of Credit Suisse by UBS in 2023 changed the credit market landscape, affecting numerous companies, households and banks. In response to this acquisition, the number of customers seeking to build credit relationships with a new bank has increased.[16] This development might have occurred for diversification purposes[17] or in response to more risk-based borrowing conditions for former Credit Suisse customers in the context of the integration process at UBS.[18]

Despite this structural shift in the Swiss banking landscape and potential ensuing adjustment costs, credit volumes have continued to increase, and momentum has picked up recently following the decline in interest rates. As can be seen in chart 2.16, domestic credit growth at domestically focused banks and 'Other banks' has more than offset the reduction in growth rates at the globally active bank(s). Hence, the rest of the banking sector has been able to meet the additional demand from customers seeking to build new credit relationships following the acquisition of Credit Suisse by UBS. The banks' significant capital and liquidity buffers – and thus substantial lending capacity (cf. subchapters 3.2 and 3.3) – have played a key role in ensuring the banking sector's ability to absorb such a significant structural shift.

The introduction of Basel III Final (cf. subchapter 3.2) in January 2025 is another major event for the Swiss banking sector. Data available so far suggests, however, that it has had no visible impact on the domestic credit market.

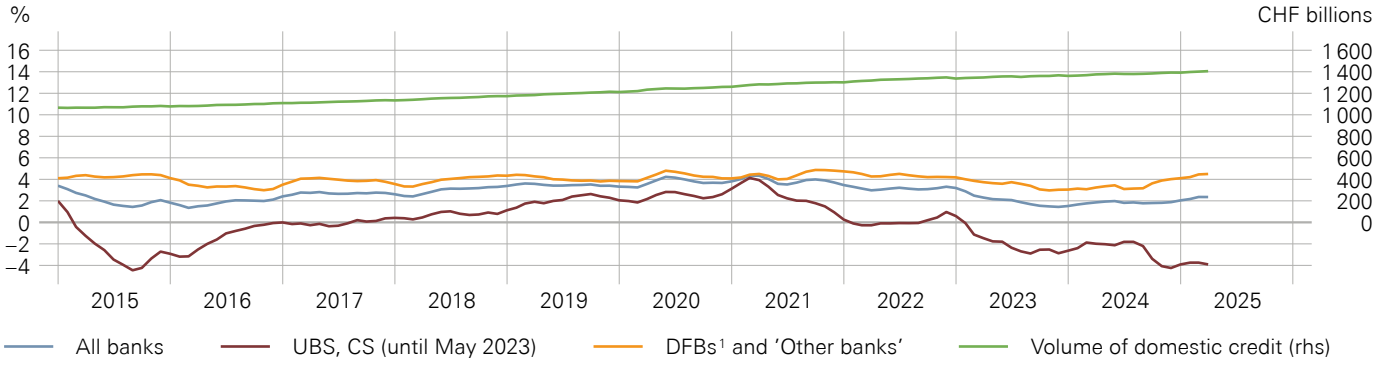
Compared to the former rules, Basel III Final is not expected to have a significant impact on the lending capacity of the Swiss banking sector. This is because it has been designed in such a way as to not affect the overall level of capital required in the banking sector. Nevertheless, capital requirements for individual banks may change depending on their business models and loan portfolios. For banks that are mainly active in the domestic lending business, capital requirements might even decrease due to the introduction of Basel III Final. Lower capital requirements for a substantial part of their portfolio more than offset the increase for some specific exposures (cf. box 'Selected elements of Basel III Final introduction in Switzerland' in subchapter 3.2).

However, Basel III Final does lead to more risk-sensitive capital requirements for credit exposures, which can affect the relative pricing of loans. Capital requirements increase for riskier segments (e.g. building loans for investment properties) while they decrease for lower-risk segments (e.g. loans for owner-occupied properties). If this higher risk sensitivity is reflected in banks' interest rate policy for lending, this could lead to changes in the relative pricing of different types of loans. While such an impact is likely to unfold gradually over the coming

16 Cf. EY Banking Barometer 2025, p. 28.
17 Ibid.
18 Cf. speeches by S. Ermotti and T. Tuckner for UBS Q4 2023 results (p. 7), "In addition, over the next three years, Credit Suisse's core businesses will also continue to require balance sheet optimization. While we will sacrifice some reported profitability and growth in the short-term, we are convinced this will improve the quality of our long-term growth trajectory […]."; and for Q2 2024 results (p. 9), "We also expect by then that our balance sheet optimization work will be largely complete, with loan pricing reflecting a more appropriate cost of risk across the Swiss credit book."

TOTAL DOMESTIC CREDIT

Nominal year-on-year growth rate (three-month average) and volume — Chart 2.16



Note: Data for different bank categories until May 2023 from SNB data portal. From June 2023 onwards, data for UBS stems from its IFRS quarterly public reporting and is linearly interpolated. The series have been corrected for structural shifts.

1 Domestically focused banks.

Source(s): SNB, UBS

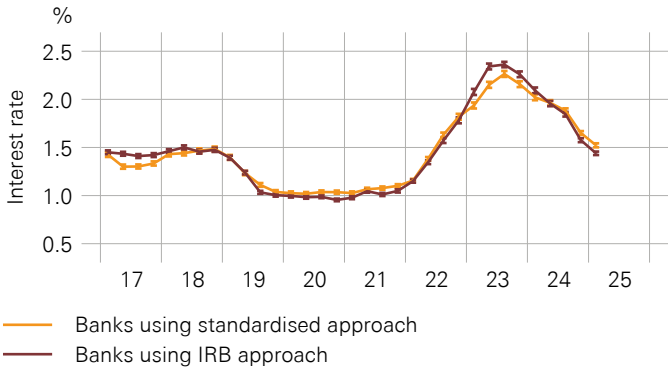
quarters, available data suggests that the level of capital requirements is not a key driver of banks' interest rate policy. Capital requirements for mortgage loans from banks using the standardised approach are typically much higher[19] than those for banks using the internal ratings-based (IRB) approach. Notwithstanding these different capital requirements, chart 2.17 illustrates that there is no material difference regarding the interest rate policies between banks using the standardised approach (depicted by the orange line) and banks using the IRB approach (depicted by the red line).

The SNB will continue to closely monitor developments in the Swiss credit market. Besides the changes mentioned at the outset, a particular focus will be on any potential impact the recent heightened uncertainty regarding economic developments might have on the credit market.

19 For instance, in 2020, risk weights and thus capital requirements for mortgage loans for owner-occupied properties were on average more than twice as high for banks using the standardised approach than for those using the IRB approach.

MORTGAGE RATES CHARGED BY BANKS USING DIFFERENT CAPITAL REQUIREMENTS[1]

Ten-year fixed; owner-occupied properties — Chart 2.17



1 Interest rates estimated by linear regression to control for loan risk characteristics. IRB phase-in for ZKB and Raiffeisen Group from 2019 to 2022.

Source(s): SNB

3 Stability of the Swiss banking sector

The SNB's assessment of the stability of the Swiss banking sector is based on the elements addressed in the following subchapters. Subchapters 3.1, 3.2 and 3.3 discuss banks' resilience to adverse events based on the profitability of their business, the size and quality of their regulatory capital, and their liquidity. Subchapter 3.4 focuses on the key risk factors to which banks are exposed. Subchapter 3.5 presents the SNB's stress tests, which assess banks' resilience in relation to losses incurred under various adverse scenarios. Stress testing constitutes a forward-looking economic assessment of the capital adequacy of banks based on their risk exposures (discussed in subchapter 3.4) and ability to absorb losses (discussed in subchapters 3.1 and 3.2). As such, stress testing complements the regulatory capital metrics. Subchapter 3.6 focuses on market-based indicators. These indicators reflect market participants' assessments of banks' creditworthiness, resilience and expected future profitability, and provide a useful complement to regulatory metrics and stress testing.

The emphasis of the analysis lies on the domestically focused banks – including the three domestically focused systemically important banks (domestically focused SIBs) PostFinance, Raiffeisen Group and Zürcher Kantonalbank (ZKB) – and on UBS. Table 1 shows the composition and size of the banks and bank categories in the Swiss banking sector.

3.1 PROFITABILITY

Sustainable profits constitute the first line of defence for absorbing losses in a stress event, and they help to restore capital – the second line of defence – following such an event.

Domestically focused banks, UBS and the category of 'Other banks' have different revenue structures (cf. chart 3.1). The main source of income for the domestically focused banks is net interest income from the deposit and lending business. By contrast, UBS and the 'Other banks' derive a large part of their income from wealth management and investment banking. This results in a high proportion of non-interest income, in particular net fee and commission income. For UBS, this proportion is also large in comparison with its international peers.[1]

1 For the international comparison of profitability, other global systemically important banks (G-SIBs) with a business model comparable to that of UBS are used. Specifically, these include: JP Morgan Chase, Bank of America, Citigroup, Morgan Stanley, Goldman Sachs, Barclays, HSBC, Deutsche Bank, Société Générale, and BNP Paribas.

BANKS AND BANK CATEGORIES IN THE SWISS BANKING SECTOR

Composition and size as at end-2024 — Table 1

Bank/Bank category	Banks included	Market share of domestic loans	Market share of domestic deposits	Leverage ratio exposure (in CHF billions)
Domestically focused banks (DFBs)	Banks with a share of domestic loans to total assets exceeding 50% or with a prominent role in the domestic deposit market	73%	69%	1 545
Of which domestically focused systemically important banks (domestically focused SIBs)	PostFinance, Raiffeisen Group, Zürcher Kantonalbank (ZKB)	26%	30%	642
UBS	UBS Group AG (including the parent bank (UBS AG) with its Swiss entity (UBS Switzerland AG) and foreign subsidiaries)	24%	24%	1 380[1]
Other banks	Banks other than UBS and domestically focused banks (primarily private banks, stock exchange banks and foreign-controlled banks)	3%	7%	549

1 UBS publishes its financial results and regulatory metrics in US dollars; the conversion into Swiss francs is based on the exchange rate as at 31 December 2024.

Source(s): SNB

Banking sector profitability improved overall in 2024, driven by UBS

The banking sector's profitability, as measured by return on assets, improved in 2024, reaching 0.47% (up from 0.33% in 2023, cf. chart 3.2).[2,3] However, there is heterogeneity between the different categories of banks. For the domestically focused banks, return on assets decreased, driven mainly by a decline in net interest income. UBS's operating return on assets increased, primarily driven by improved net fee and commission income. For the 'Other banks', return on assets improved as well, due to higher net fee and commission income, net trading income and a normalisation of credit loss expenses.[4]

Domestically focused banks' profitability decreased in 2024

Against the backdrop of the interest rate environment in Switzerland, domestically focused banks' profitability decreased by 8% (or 4 basis points) in 2024, to 0.46% (cf. chart 3.3). The pressure on return on assets was mainly driven by a decline in net interest income.

In 2024, profitability was also down for the three domestically focused SIBs. Return on assets decreased year on year at Raiffeisen Group by 15% (or 7 basis points), to 0.40%, and at ZKB by 11% (or 7 basis points), to 0.55%. In both cases, this was mainly due to lower net interest income.[5] At PostFinance, return on assets dropped by 30% (or 5 basis points), to 0.11%. While this was partially driven by lower net interest income, PostFinance also reported higher credit loss expenses related to loans and bonds in its investment portfolio.[6]

Renewed pressure on domestically focused banks' net interest margins due to interest rate developments

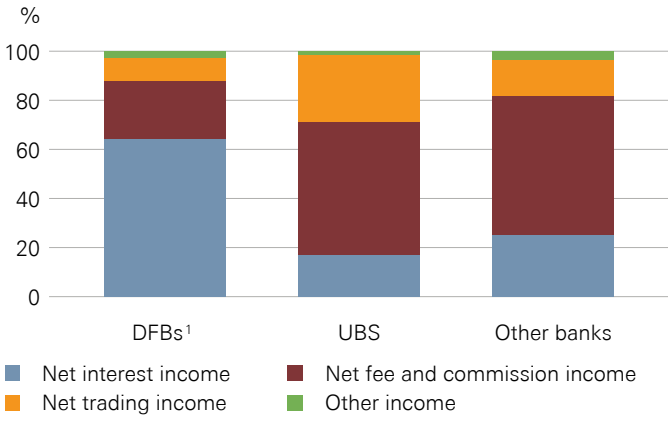
Domestically focused banks' net interest margins decreased by 8% (or 8 basis points), to 1.02% as at end-2024 (cf. chart 3.3). The decline was driven by the level of interest rates and an inverted interest rate curve. Interest rates have reverted to levels that lead to a compression of the banks' liability margins.[7,8] Should interest rates remain

2 From a financial stability perspective, profitability measures that relate profits to the size of banks' risk exposures, such as return on assets, are particularly relevant. Investors tend to prioritise return on equity when assessing the potential return on their investment. This metric is less suited to evaluating the underlying resilience of a bank, particularly as it can improve alongside weakened capital, compromising the latter's role as the second line of defence. Return on assets is defined as net profit expressed as a percentage of total assets.
3 Excluding UBS's reported one-off effect of the acquisition of Credit Suisse (negative goodwill) in 2023.

4 In 2023, credit loss expenses within the 'Other banks' category had risen substantially, mainly due to insolvencies related to the Austrian Signa Group.
5 At ZKB, the introduction of the OECD minimum tax rate contributed to the overall decrease in the bank's return on assets.
6 Cf. PostFinance Annual Report 2024, p. 35.
7 The liability margin is the difference between alternative funding costs for the same maturity on the capital market and the interest paid on the liability.
8 For a discussion about the development of these banks' liability margins prior to the introduction of negative interest rates in 2014, cf. SNB Financial Stability Report 2015 (pp. 21–22).

REVENUE STRUCTURE

As a percentage of total revenue, 2024 — Chart 3.1

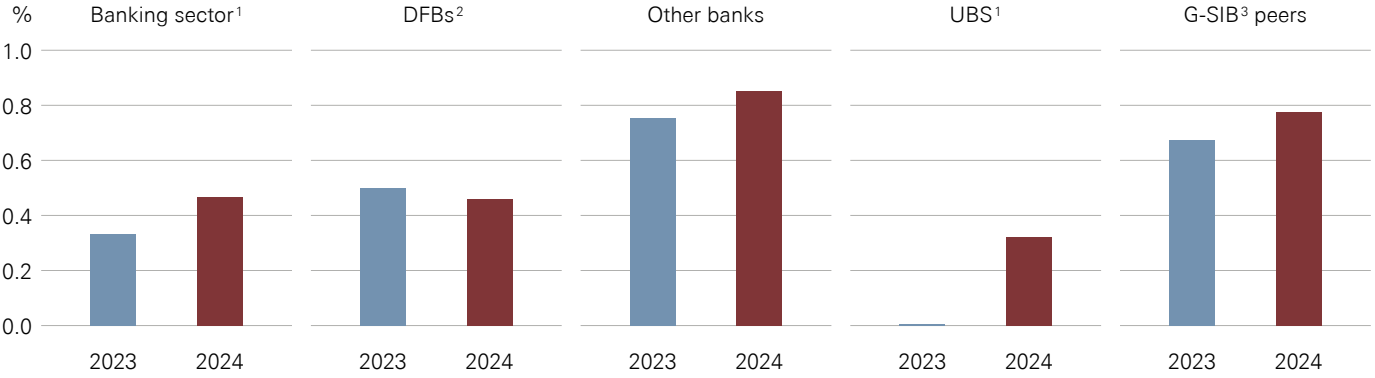


1 Domestically focused banks.

Source(s): SNB

RETURN ON ASSETS

Reported net profit as a percentage of assets — Chart 3.2



1 Net profit excluding one-off negative goodwill at UBS in 2023.
2 Domestically focused banks.
3 Global systemically important bank.

Source(s): Bank disclosures, Bloomberg, FINMA, Moody's, SNB

at their current levels, or decrease further, these banks' net interest margins will come under additional pressure.

UBS's operating profitability increased across divisions in 2024, but integration-related costs weigh on profitability

UBS improved its return on assets to 0.32%, reporting an after-tax profit of USD 5.1 billion for the full year 2024. Increased revenues were generated across divisions, largely due to the consolidation of Credit Suisse revenues for the full period. The main increase was in UBS's core business of wealth management, which profited from higher fees and increased client activity. In the first quarter of 2025, UBS reported solid profits. Strong results were achieved mainly in wealth management and investment banking due to an overall beneficial market environment that outweighed lower net interest income in the Swiss business (Personal & Corporate Banking division) compared to Q1 2024.

While UBS's integration of Credit Suisse will continue until 2026, the additional cost burden weighs on its profitability, indicated by a reported cost-to-income ratio of around 82% in Q1 2025. UBS intends to improve this ratio to about 70% by the end of 2026. By comparison, UBS's peers operated with a median cost-to-income ratio of 64% in 2024.

After completing the integration, UBS expects to generate substantial profits, thus strengthening the first line of defence for absorbing losses in a potential stress event. UBS is targeting an underlying return on Common Equity Tier 1 (CET1) capital of approximately 15% by the end of 2026 (exit rate) and a reported return on CET1 capital of approximately 18% by 2028, reaching pre-integration levels. This implies annual profits of over USD 10 billion after completion of the integration.[9]

9 In combination with the bank's guidance of a CET1 capital ratio of approximately 14% and risk-weighted assets (RWA) of approximately USD 500 billion, these targets imply profits of over USD 10 billion.

3.2 CAPITAL

Banks' capital, as the second line of defence after profitability, defines their capacity to absorb losses. A particular focus is on CET1 capital, since this represents the more reliable source of loss-absorbing capacity in a going concern. The average share of CET1 capital in total capital is 96%. While capital consists exclusively of CET1 at around half of banks, CET1 makes up 85% or less at the banks with the lowest shares (10% percentile).

Swiss banks' capital ratios are high and heterogeneous across banks

In 2024, the total banking sector's CET1 capital ratios remained broadly constant compared to 2023. The CET1 risk-weighted capital ratio of the total banking sector amounted to 17.4% at end-2024, and the CET1 leverage ratio to 6.1% (cf. charts 3.4 and 3.5). At the individual bank level, capital ratios vary significantly – a few banks have risk-weighted ratios of less than 12%, while others reach ratios of over 24%. As regards the leverage ratio, a few banks have a ratio of less than 4%, and others more than 12%. For the domestically focused banks, CET1 capital ratios also remained broadly stable. Their risk-weighted capital and leverage ratios were 17.8% and 6.9%, respectively.

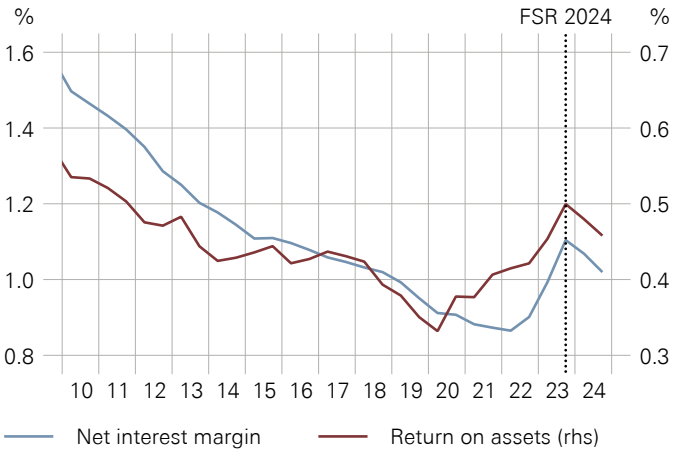
Available capital buffers in the banking sector reflect significant loss-absorbing and lending capacity

Capital buffers consist of regulatory buffers and voluntary buffers. The regulatory buffers include the countercyclical capital buffer (CCyB), the capital buffer target levels set according to supervisory category (cf. Capital Adequacy Ordinance, CAO), as well as the institution-specific capital buffer requirements applying to systemically important banks (SIBs).

The CCyB is currently applied on a sectoral basis and accounts for the vulnerabilities observed in the Swiss mortgage and real estate markets (cf. subchapter 2.2). It imposes an additional CET1 requirement equal to 2.5%

BANK PROFITABILITY

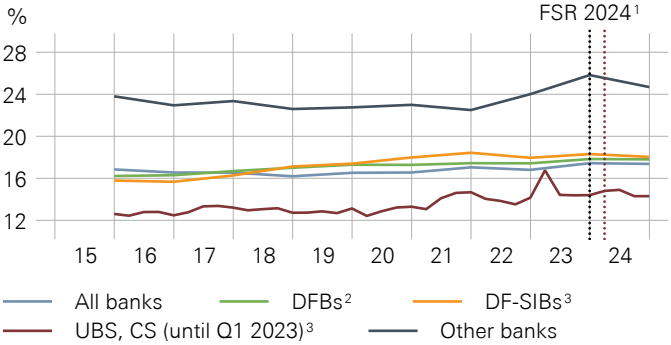
Domestically focused banks — Chart 3.3



Source(s): SNB

CET1 CAPITAL RATIO

At year-end (for UBS and CS at end-quarter) — Chart 3.4



1 FSR 2024 used end-2023 data for all banks, and Q1 2024 data for UBS and CS.
2 Domestically focused banks.
3 A phase-in perspective is used for domestically focused SIBs, and a look-through perspective for UBS and CS.

Source(s): FINMA, SNB

GOING-CONCERN CAPITAL RATIOS AND REQUIREMENTS

Look-through and phase-in — Table 2

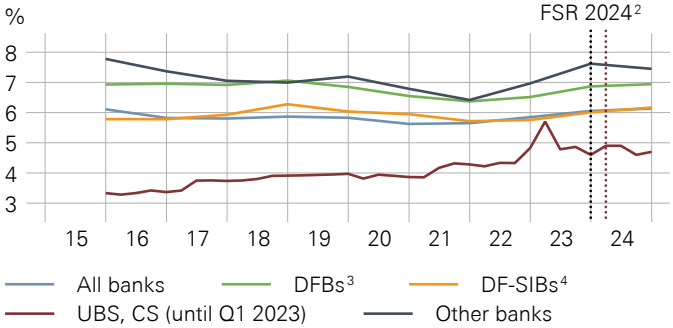
	PostFinance			Raiffeisen Group			ZKB		
	2023	2024	Requirement 2024[3]	2023	2024	Requirement 2024[3]	2023	2024	Requirement 2024[3]
TBTF ratios (look-through)[1]									
Going-concern capital ratio	15.8%	15.8%	13.1%	For Raiffeisen Group and ZKB, look-through figures are identical to phase-in figures.					
CET1 capital ratio	14.3%	14.3%	8.8%						
Going-concern leverage ratio	4.6%	4.4%	4.5%						
CET1 leverage ratio	4.1%	4.0%	3.0%						
TBTF ratios (phase-in)[2]									
Going-concern capital ratio	18.5%	17.8%	13.1%	19.5%	19.7%	14.6%	18.7%	17.9%	13.8%
CET1 capital ratio	17.0%	16.3%	8.8%	19.5%	19.7%	10.3%	17.4%	16.6%	9.5%
Going-concern leverage ratio	5.3%	5.0%	4.5%	6.3%	6.6%	4.6%	6.6%	6.8%	4.5%
CET1 leverage ratio	4.9%	4.6%	3.0%	6.3%	6.6%	3.1%	6.1%	6.3%	3.0%
TBTF capital levels (in CHF billions)									
Tier 1 capital (look-through)	4.7	4.7	–	18.9	20.4	–	14.8	15.5	–
CET1 capital (look-through)	4.2	4.2	–	18.9	20.4	–	13.7	14.4	–
Tier 1 capital (phase-in)	5.4	5.3	–	18.9	20.4	–	14.8	15.5	–
CET1 capital (phase-in)	5.0	4.8	–	18.9	20.4	–	13.7	14.4	–
TBTF exposure levels (in CHF billions)									
RWA	29.5	29.6	–	97.1	103.5	–	79.0	86.4	–
Leverage ratio exposure	102.4	105.3	–	299.8	309.5	–	223.9	227.1	–

1 The ratios are calculated based on the final requirements, i.e. no transitional provisions are taken into account.
2 The ratios and levels are calculated based on the phase-in requirements as at end-2023 (for 2023 figures) and as at end-2024 (for 2024 figures).
3 Including the CCyB. Excluding bank-specific Pillar 2 surcharges for specific risks.

Source(s): Domestically focused SIBs' regulatory reporting

CET1 LEVERAGE RATIO[1]

At year-end (for UBS and CS at end-quarter) — Chart 3.5



1 Total assets are used in the denominator before the implementation of the leverage ratio exposure measure.
2 FSR 2024 used end-2023 data for all banks, and Q1 2024 data for UBS and CS.
3 Domestically focused banks.
4 Domestically focused SIBs.

Source(s): FINMA, SNB

of risk-weighted exposures secured by residential property in Switzerland. At 2.5%, the sectoral CCyB is currently set at the legal maximum level, as defined in the CAO.[10]

Available capital buffers in the banking sector reflect significant loss-absorbing and lending capacity. At end-2024, individual banks' total regulatory and voluntary capital buffers as a share of risk-weighted assets (RWA) were typically between 9.9% and 20.0%. A large part of these capital buffers consisted of voluntary buffers, which typically made up between 5.6% and 18.7% of RWA.[11]

Capital situation at domestically focused SIBs is heterogeneous

The three domestically focused SIBs fulfil the capital requirements as set out in the CAO (cf. table 2). The capital situation and its dynamics, however, vary between the three banks.

For Raiffeisen Group and ZKB, their risk-weighted capital ratios and leverage ratios are significantly above regulatory requirements. Raiffeisen Group's ratios improved at end-2024 compared to end-2023. As regards ZKB, the leverage ratio increased slightly, while its risk-weighted capital ratio declined.

PostFinance's capital ratios exceed regulatory requirements as well – the risk-weighted capital ratio is significantly above regulatory requirements, while the leverage ratio is only slightly so. The bank's going-concern capital ratios decreased year on year, mainly because the bank earmarked more of its CET1 capital to meet gradually increasing gone-concern requirements.[12]

UBS meets its TBTF capital requirements on a fully applied basis

For UBS Group AG, the CET1 capital and leverage ratios have decreased since the first quarter of 2024 (cf. table 3). This is due to a decline in CET1 capital, which is partially offset by lower RWA and total exposure. The CET1 capital decreased mainly because the operating profit was more than offset by net share repurchase effects, dividend accruals and regulatory capital adjustments.[13] However, as of Q1 2025, UBS Group AG still meets the fully applied (pro forma) 'too big to fail' (TBTF) requirements applicable as of 1 January 2030.

The Swiss TBTF capital requirements are progressive and depend on a SIB's market share and size. As the combined bank has grown in both metrics, UBS's capital requirements will increase. At the same time, to take into account GDP growth over recent years, the current revision of the CAO provides for an enlargement of the buckets for the capital surcharges linked to a SIB's size,[14] as provided for in the TBTF regulations.[15] This adjustment could cushion the impact of the increase in UBS's capital requirements. To comply with the new requirements, UBS has been granted a transition period by the Swiss Financial Market Supervisory Authority (FINMA), with phase-in starting from the end of 2025 and ending by the beginning of 2030, at the latest.[16]

The CET1 capital and leverage ratios of the parent bank (i.e. UBS AG on a standalone basis) decreased following the completion of the parent bank merger (UBS AG and Credit Suisse AG) in May 2024 (cf. table 3). This is due to a decline in CET1, mainly driven by dividend accruals for capital returns to UBS Group AG, partially offset by operating profit. In the case of the risk-weighted capital ratio, this decline was partially offset by lower RWA, mainly due to a decrease in participations as a result of capital repatriations as well as due to lower credit and counterparty credit risk. Like the group, the parent bank already meets the fully applied (pro forma) TBTF requirements applicable as of 1 January 2030.

From financial stability perspective, full deduction of foreign participations is best solution to ensure robust capitalisation of parent bank

As illustrated by the crisis at Credit Suisse, a parent bank's standalone capital ratios – in addition to the group's capital ratios – are important for ensuring trust in the overall resilience of a bank, particularly in stressed market conditions. Under the current regulatory treatment of participations, standalone capital ratios of a parent bank overestimate its true resilience and are thus vulnerable to impairments of these participations (cf. SNB Financial Stability Report 2024, pp. 32–34, 54–56).

The SNB therefore supports the package of measures in the area of capital regulation proposed by the Federal Council – including strengthening the capital requirements for foreign participations, tightening regulatory requirements regarding the prudent valuation and the recoverability of certain balance sheet items, as well as strengthening the loss-absorbing capacity of Additional Tier 1 (AT1) capital instruments on a going-concern basis.[17] From a financial stability perspective, a full deduction of foreign

10 Cf. SNB, Stance of the Basel III countercyclical capital buffer in Switzerland, February 2025.
11 The numbers in this paragraph refer to the 25th and 75th percentile of the respective capital buffers.
12 Gone-concern requirements will gradually increase until 2026. CET1 capital used to fulfil gone-concern requirements can no longer be used for going-concern purposes and must be deducted from available going-concern capital in order to avoid 'double duty'.
13 These regulatory capital adjustments include, for example, the voluntary amortisation of the transitional CET1 capital purchase price allocation adjustments.
14 Cf. Federal Department of Finance, 'Erläuternder Bericht zur Eröffnung des Vernehmlassungsverfahrens, Änderung der Eigenmittelverordnung: Umsetzung der Massnahmen aus dem Bericht des Bundesrates zur Bankenstabilität und dem Bericht der parlamentarischen Untersuchungskommission', 6 June 2025, pp. 24–26, only available in German.
15 Cf. Federal Department of Finance, 'Erläuterungsbericht zu Änderungen der Eigenmittelverordnung und der Bankenverordnung', 13 May 2016, p. 15, only available in German.
16 Based on market share and size as at Q1 2025 as well as planned adjustments to the progression, UBS's future requirement for the risk-weighted CET1 capital ratio will be 11.08% (compared with 10.00% at present) and for the CET1 leverage ratio 3.875% (compared with 3.500% at present), excluding the CCyB requirement and bank-specific Pillar 2 surcharges.
17 Cf. Federal Department of Finance press release, 'Federal Council draws lessons from Credit Suisse crisis and defines measures for banking stability', 6 June 2025.

CET1 CAPITAL RATIOS AND REQUIREMENTS

Table 3

	UBS Group AG		UBS AG (standalone)		Current requirement	Fully applied requirement
	Q1 2024	Q1 2025	Q2 2024	Q1 2025	Requirement as of 31.03.2025[1]	Pro forma requirement as of 01.01.2030[2]
TBTF CET1 ratios						
CET1 capital ratio[3]	14.8%	14.3%	13.5%	12.9%	10.4% / 10.2%	11.5% / 11.2%
CET1 leverage ratio	4.9%	4.4%	8.9%	7.6%	3.5%	3.9%
TBTF levels (in USD billion)						
Eligible CET1 capital	77.7	69.2	82.3	71.0	–	–
Investments in foreign-domiciled subsidiaries	–	–	59.9	51.4	–	–
Investments in Swiss-domiciled subsidiaries	–	–	35.7	36.9	–	–
Pro forma required CET1 capital[4]	62.0	60.5	68.4	61.9	–	–
Of which investments in foreign-domiciled subsidiaries[3]	–	–	26.5	22.8	–	–
Of which investments in Swiss-domiciled subsidiaries[3]	–	–	9.9	10.2	–	–
RWA[3]	526	483	610	551	–	–
Total exposure	1 600	1 562	922	935	–	–

1 Including the Swiss sectoral CCyB for UBS Group AG of 0.44% (0.15% for UBS AG). Excluding bank-specific Pillar 2 surcharges. The first requirement refers to UBS Group AG, the second to UBS AG (standalone).
2 Pro forma requirements as of 1 January 2030 assume TBTF surcharges based on the leverage ratio exposure and market share as of Q1 2025 and adjustment of the progressive component in relation to the leverage ratio denominator. Requirements include the CCyB requirement and exclude bank-specific Pillar 2 surcharges.
3 For UBS AG (standalone): using pro forma requirements for the merged banks as of 1 January 2030 without the CCyB, and fully phased-in risk weights for participations as of 1 January 2028.
4 Higher value of TBTF CET1 requirements according to risk-weighted approach and leverage ratio approach (using pro forma requirements for the merged bank as of 1 January 2030 and fully phased-in risk weights for participations as of 1 January 2028).

Source(s): Bank disclosures, SNB calculations

participations from CET1 capital is the best solution to ensure full capital backing of these participations and thus robust capitalisation of a parent bank. Moreover, this also increases the recovery options in future stress periods and the resolvability of the group. The deduction will increase the CET1 capital requirement for the UBS parent bank by approximately USD 23 billion. The other proposed measures in the area of capital regulation will increase the CET1 capital requirement at the parent bank by a further USD 3 billion to a total of USD 26 billion.[18] As UBS exceeds the fully applied (pro forma) capital requirements (cf. table 3) and its capital target for the parent bank, the necessary CET1 capital increase to meet the requirements at the parent bank will be lower.[19]

Overall, based on the bank's current capital situation, its own profitability guidance (cf. subchapter 3.1), capital repatriations and other mitigating measures, as well as the proposed phase-in period,[20] the required capital increase will be feasible. According to the authorities' assessment, raising capital from shareholders or excessively reducing distributions does not seem necessary.[21]

UBS's capital ratios are in line with those of international peers

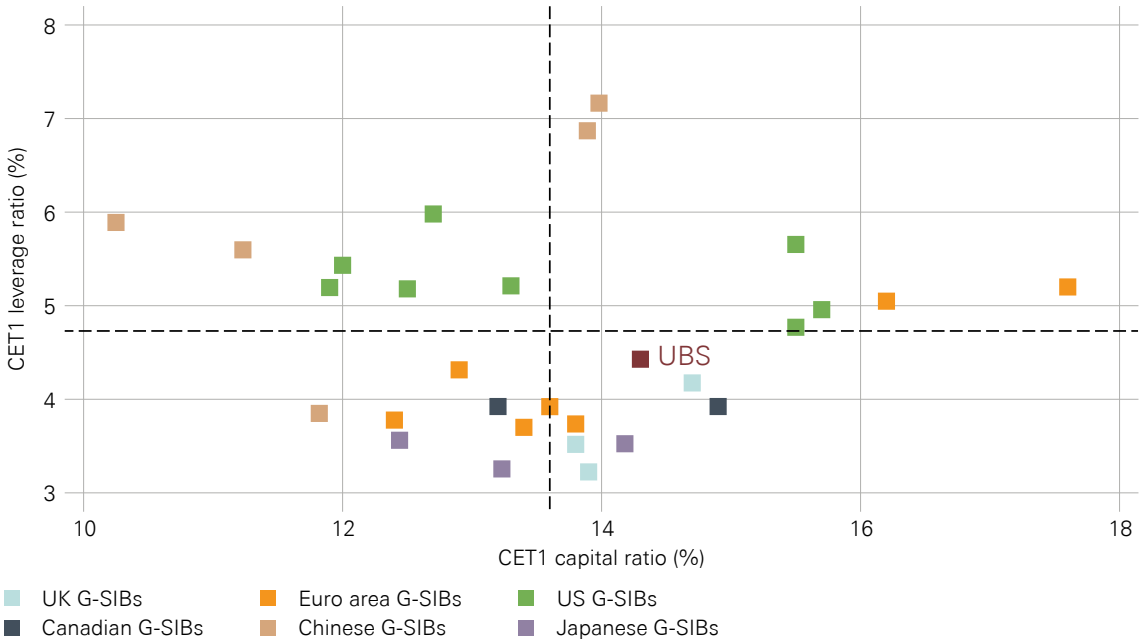
In an international comparison, UBS's Basel III risk-weighted CET1 ratio is above the average for global systemically important banks (G-SIBs; cf. chart 3.6), while its CET1 leverage ratio is below the average. Compared with a subsample of European and US G-SIBs that have a similar business model, UBS's capital ratios are in the midfield. Taking the capital effects of the proposed TBTF package into account, UBS will be among the best-capitalised banks of this peer group, though not an outlier in terms of its capital ratios.[22]

A high resilience of UBS is particularly important for Switzerland considering the bank's size and systemic importance. As can be seen in chart 3.7, UBS stands out among the G-SIBs in terms of its size relative to GDP. Furthermore, chart 3.8 shows that the bank's systemic footprint has increased overall, and not just due to its larger size. The Federal Council also considers stability and resilience to be "the indispensable foundation for

18 In terms of Tier 1 capital, the capital requirements will increase by only USD 18 billion because the deduction approach will reduce the required AT1 capital by USD 8 billion. Cf. Federal Department of Finance, 'Factsheet: Capital backing of foreign subsidiaries by the Swiss parent company', 6 June 2025, p. 6.
19 UBS exceeds the lower end of its capital guidance for the parent bank of 12.5% by USD 2 billion as at 31 March 2025. The capital repatriations expected (roughly USD 5 billion), subject to customary regulatory approval, will free up approximately USD 2.5 billion of CET1 capital at the parent bank under the current capital regime (cf. UBS, 'Assessment of the impact of the proposed Swiss regulatory capital measures on UBS', 6 June 2025, p. 2). Moreover, any further capital repatriation from subsidiaries, capital freed up during the restructuring and integration of Credit Suisse entities, and existing capital reserves at the parent bank may lower the necessary CET1 capital increase. Cf. Federal Department of Finance, 'Factsheet: Capital backing of foreign subsidiaries by the Swiss parent company', 6 June 2025, p. 7.
20 The Federal Council proposed a phase-in period of 6–8 years from the date of entry into force for the new capital rules regarding foreign participations.
21 Cf. Federal Department of Finance, 'Factsheet: Capital backing of foreign subsidiaries by the Swiss parent company', 6 June 2025, p. 7 and FINMA, 'Information sheet: Capital backing for foreign participations', 6 June 2025, p. 2.
22 If all the measures announced by the Federal Council were to be implemented, UBS's CET1 ratio would be in the range of 15–17%, according to current estimates. Cf. Federal Department of Finance, 'Factsheet: Capital backing of foreign subsidiaries by the Swiss parent company', 6 June 2025, p. 8.

INTERNATIONAL COMPARISON OF CET1 CAPITAL[1]

G-SIBs, Q1 2025 — Chart 3.6



1 The dashed lines depict the (unweighted) averages.

Source(s): Bank disclosures, Bloomberg

an attractive, innovative, globally interconnected and sustainable financial centre”.[23]

Furthermore, evidence shows that high capital ratios are compatible with high market valuation (cf. charts 3.9 and 3.10). For equity investors, more capital tends to lower the return on equity but, at the same time, the returns for the shareholders will be more stable, mitigating the negative impact on valuation. For debt investors and depositors, high capital ratios are attractive, as their claims become more secure. For the wealth management business in particular, this can strengthen customer confidence and increase long-run stability.

23 Cf. Federal Council report on banking stability, 10 April 2024, p. 2.

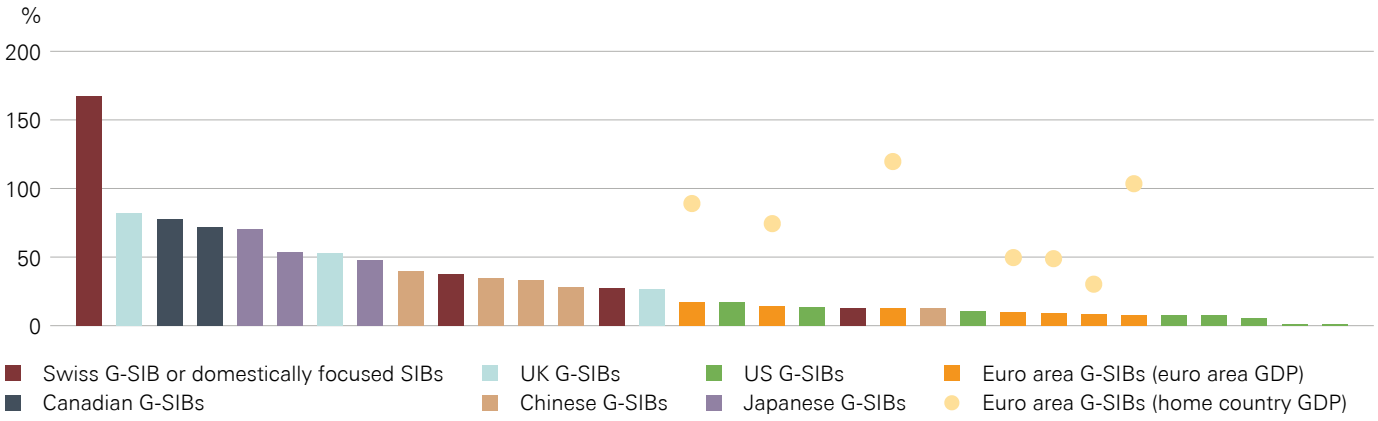
Introduction of final Basel III standards marks important milestone for Swiss regulatory framework

With the introduction of the final Basel III standards (Basel III Final) at the beginning of 2025, Switzerland has implemented a central element of the response of the Basel Committee on Banking Supervision (BCBS) to the 2008 global financial crisis.[24] Basel III addresses shortcomings in the pre-crisis regulatory capital framework on various levels. The final phase of the Basel III reforms enhances the robustness and risk sensitivity of the standardised approach for RWA, particularly in the area of credit risk (cf. box ‘Selected elements of Basel III Final introduction in Switzerland’) and market risk (cf. subchapter 3.4.2). Furthermore, it eliminates the model-based approach for

24 Internationally, the introduction of Basel III is well advanced. About 70% of BCBS member jurisdictions have now implemented the standards or will implement them in the coming quarters (cf. BIS press release, ‘Governors and Heads of Supervision reaffirm expectation to implement Basel III and discuss work on financial impact of extreme weather events’, 12 May 2025).

SIZE OF INDIVIDUAL BANKS RELATIVE TO GDP, BY JURISDICTION[1]

G-SIBs and Swiss domestically focused SIBs, leverage ratio exposure to GDP — Chart 3.7

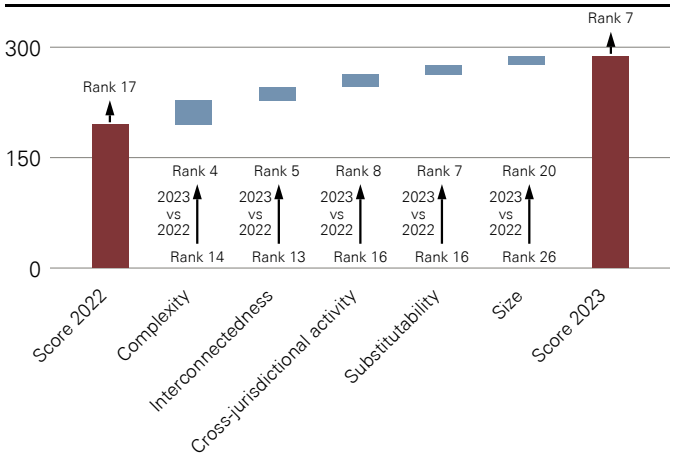


1 GDP data as at 2024, if available. Bank exposures as at Q1 2025.

Source(s): Bank disclosures, IMF, SNB calculations

FSB G-SIB SCORE 2022–2023 FOR UBS

Breakdown by risk category — Chart 3.8



Source(s): Financial Stability Board (FSB), SNB calculations

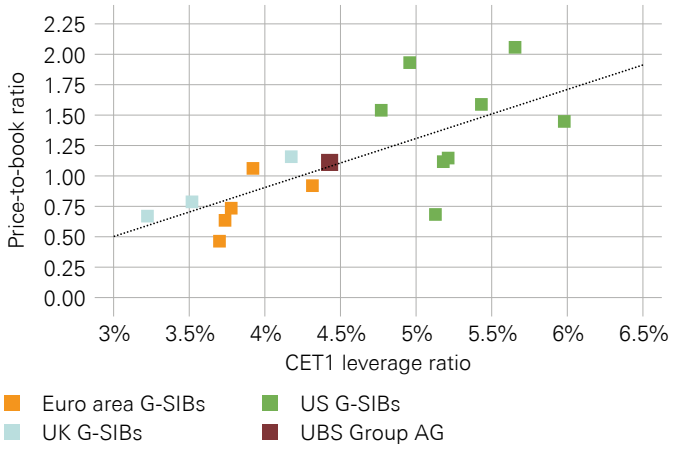
operational risk (cf. subchapter 3.4.5) and introduces several constraints for the internal ratings-based (IRB) approach. As a further constraint to bank-internal models, Basel III Final introduces an aggregate output floor (cf. box 'Selected elements of Basel III Final introduction in Switzerland').

In addition, Basel III Final comes with new disclosure requirements. Banks using model-based approaches are now also required to disclose their RWA based on the standardised approach. Due to its quarterly reporting frequency, UBS was the first Swiss bank to create this transparency. As at Q1 2025, the bank's model-based RWA lay 34% below the RWA under the standardised approach. If the final 72.5% aggregate output floor described in the box had been applicable as of Q1 2025, it would have increased UBS's RWA by approximately 10%, which would have reduced UBS's CET1 ratio of 14.3% to a pro forma value of 13.0%. UBS is taking action to mitigate the impact of the aggregate output floor, which will only be fully applicable from 2028. Basel III Final requires banks to disclose their RWA under the standardised approach not only as an aggregate but also for different sub-portfolios. For the portfolios where UBS applies model-based approaches, RWA for credit and counterparty credit risk are 53% lower than the corresponding RWA under the standardised approach.

Together, these changes help to improve the comparability of banks' risk-based capital ratios and increase transparency in order to foster market discipline.

PRICE-TO-BOOK VS CET1 LEVERAGE RATIO

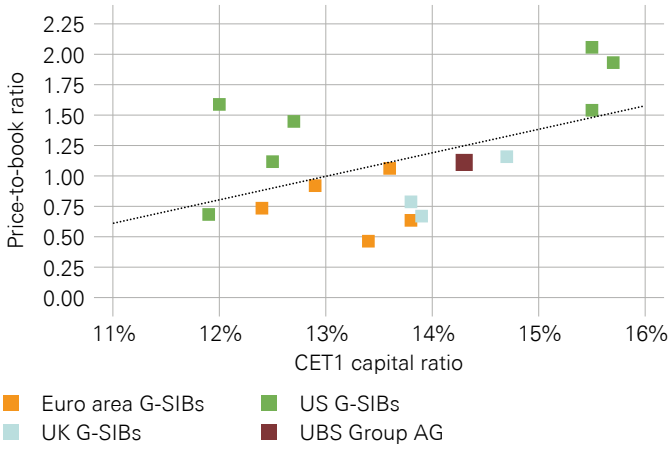
Q1 2025 Chart 3.9



Source(s): Bank disclosures, Bloomberg

PRICE-TO-BOOK VS CET1 CAPITAL RATIO

Q1 2025 Chart 3.10



Source(s): Bank disclosures, Bloomberg

Selected elements of Basel III Final introduction in Switzerland

This box highlights two key elements of the Basel III Final introduction in Switzerland: the increase in risk sensitivity for credit risk exposure and constraints in the use and impact of bank-internal models.

Basel III Final increases the risk sensitivity for credit risk exposure in the standardised approach, setting incentives for risk reduction. This is expected to decrease overall capital requirements for lending to a slight to moderate extent.

– *Higher risk sensitivity*: For mortgage loans, higher risk sensitivity is achieved through additional segmentation (distinction between owner-occupied properties and investment properties) and a more granular risk weighting depending on loan-to-value (LTV) ratios. Banks using the standardised approach will be required to hold more capital for riskier lending but less for exposures with lower risk. For instance, building loans and high-LTV loans for investment properties will require more capital than under the previous rules. Loans for owner-occupied properties and loans with a low LTV ratio are subject to lower requirements.

– *Impact on capital requirements*: For mortgage loans, capital requirements are expected to decrease overall as the effect of lower risk weights is likely to dominate. With respect to corporate loans, requirements for loans to small and medium-sized companies should decline somewhat compared to the previous set of rules. For these loans, risk weights will decrease slightly and no material effect is expected from changes in the treatment of loan commitments.

Basel III Final also introduces constraints in the use of bank-internal models, and floors for their impact on capital requirements. While these adjustments increase capital requirements for banks using the internal ratings-based (IRB) approach, requirements remain considerably lower than those for banks using the standardised approach.

– *Exclusion of certain risk categories from the IRB approach*: For exposures to large corporates and banks, the advanced IRB approach is no longer permitted; only the foundation IRB approach, under which banks are allowed to model a counterparty's probability of default but not the loss given default, is permitted.

– *Limits to model inputs for IRB approaches*: For most asset classes, the minimum probability of default has been increased to 0.05% and loss given default input parameters have been recalibrated.

– *Introduction of a Basel III aggregate floor for banks using internal models*: By 2028, their total risk-weighted assets (RWA) must amount to at least 72.5% of RWA calculated using the standardised approach. In other words, this floor will ensure that their total RWA do not fall more than 27.5% below the RWA they would have when using the standardised approach.

– *Sectoral floor in the Swiss regulation as a complement to the Basel III aggregate floor*: This Swiss-specific floor ensures that model-based RWA for domestic mortgage loans amount to at least 72.5% of the corresponding RWA under the standardised approach. The objective of the sectoral output floor is to partially level the playing field for this main segment of the domestic credit market. The sectoral output floor replaces previous measures implemented by the Swiss Financial Market Supervisory Authority (FINMA) to limit the differences between the two approaches in this segment.

– *Interaction between the two floors*: If both floors are binding, the higher of the two requirements is decisive. Therefore, the impact of the two floor regimes is not additive.

– *Phase-in by 2028*: The regulation provides for an initial starting level of 60% for both floors compared to the standardised approach, i.e. a tolerated deviation from RWA under the standardised approach of a maximum of 40% in 2025.

3.3 LIQUIDITY

Banks are inherently exposed to liquidity risks, as they typically rely on short-term liabilities to finance long-term, less liquid assets. Liquidity shocks occur when banks are unable to roll over these short-term liabilities. To absorb such liquidity shocks, banks have three lines of defence. The liquid assets (e.g. cash and high-quality bonds) they hold and a stable funding structure constitute the first line of defence. Regulatory requirements, such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), ensure a minimum level of liquidity buffer and stable funding for individual banks. Furthermore, SIBs are subject to TBTF liquidity requirements, which were introduced in 2024.[25] Despite these safeguards, liquidity shortfalls can still occur. In such cases, the SNB can act as lender of last resort and provide additional liquidity against sufficient collateral.[26] This liquidity support from the SNB constitutes the second line of defence. If the first and second lines of defence were still insufficient, a public liquidity backstop (PLB) could provide additional liquidity as a third line of defence.

Banks hold substantial liquidity in excess of regulatory requirements

Most banks in Switzerland hold substantial high-quality liquid assets (HQLA) in excess of the LCR requirement. The aggregate HQLA surplus to regulatory requirements in the banking sector has remained high over the past 12 months (cf. chart 3.12). Banks' LCRs have averaged around 185% over the same period – well above their regulatory minimum requirements (cf. chart 3.11).[27] LCRs vary significantly across banks, though. The banks in the highest quartile have had an LCR of around 305% or more, at least twice the value of banks in the lowest quartile (around 150% or less). Domestically focused banks' LCRs have been broadly stable on average during the past 12 months and somewhat lower than the average of the banking sector. SIBs fulfilled the LCR and the additional TBTF liquidity requirements. Domestically focused SIBs' LCRs have remained broadly stable during the same period, averaging around 160%. Throughout 2024, UBS reduced its voluntary liquidity buffers, as it made progress in integrating Credit Suisse. As a result, its average LCR in Q1 2025 was 181%, compared to 220% in Q1 2024.

NSFRs have also been well above regulatory requirements and remained fairly constant over the past 12 months. All banks in Switzerland fulfil the corresponding requirement, in most cases with substantial buffers. Their median has remained fairly constant around 140%, with their lower quartile at 130%.[28]

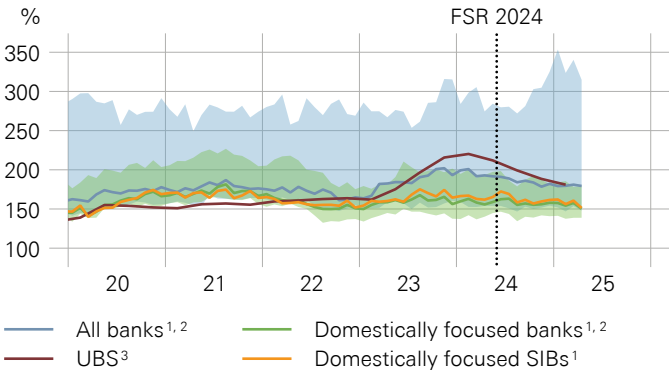
In a crisis, liquidity outflows can become very high – additional measures are key to enhancing banks' resilience

In the event of a loss of confidence, outflows can be rapid and exceed the HQLA, as the funding structure of banks is short term. Around 60% of banks' deposits have a maturity below one month, and 45% below one week (cf. chart 3.13). The crisis at Credit Suisse in 2022–2023 and the crises at US regional banks in 2023 showed that when depositors lose confidence in a bank, outflows can be rapid and exceed the assumptions of the LCR. This can ultimately affect a bank's viability (cf. SNB Financial Stability Report 2024, special topic in subchapter 5.1, p. 50). For SIBs, outflows that are contractually possible within a seven-day period are nearly triple their aggregated HQLA,

25 Cf. Liquidity Ordinance for information on the liquidity regulations in Switzerland.
26 Cf. Guidelines of the Swiss National Bank on monetary policy instruments of 25 March 2004 (as at 17 June 2024).
27 Note that banks in Switzerland are subject to regulatory LCR requirements of 100%, except for banks subject to the small banks regime, which face regulatory LCR requirements of 110% (cf. www.finma.ch/en/supervision/banks-and-securities-firms/kat-4-und-5-kleinbankenregime/). Furthermore, SIBs are subject to TBTF liquidity requirements, in addition to an LCR of 100%.
28 Swiss banks are subject to NSFR requirements of 100%, but banks subject to the small banks regime are exempt from this requirement (cf. www.finma.ch/en/supervision/banks-and-securities-firms/kat-4-und-5-kleinbankenregime/).

LIQUIDITY COVERAGE RATIOS

Chart 3.11



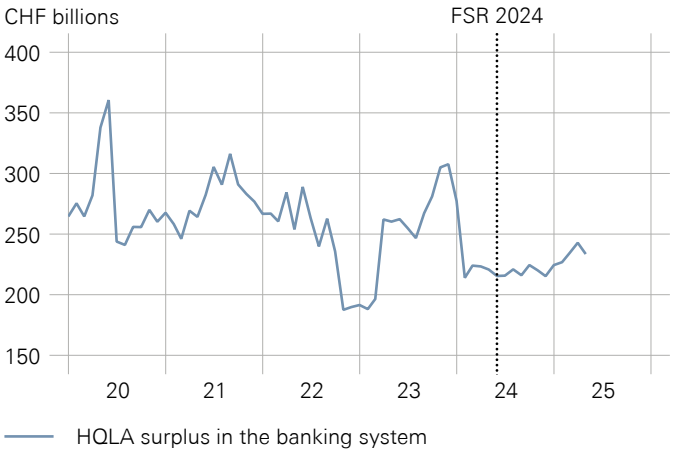
1 Average weighted by net cash outflows.
2 25% and 75% quantiles.
3 Quarterly average.

Source(s): SNB, UBS Pillar 3 disclosures

HQLA SURPLUS IN THE BANKING SYSTEM

HQLA surplus to regulatory requirements

Chart 3.12



Source(s): SNB

or five times the amount anticipated by the LCR for a 30-day stress scenario. For non-systemically important banks (non-SIBs), potential outflows over the seven-day period are more than double their aggregated HQLA, and more than four times the amount anticipated by the LCR for a 30-day stress scenario (cf. chart 3.14). Some banks may also face the risk of liquidity shortfalls in foreign currencies. It is essential that these banks maintain adequate foreign currency liquidity buffers and that they have sound risk management practices in place to address these risks.

To address such substantial deposit outflows, the Federal Council in its report on banking stability proposes additional measures in the first, second and third lines of defence, which are key to enhancing banks' resilience.[29]

With respect to the first line of defence, the standards for liquidity requirements (LCR and NSFR) should be critically reviewed at international level. This includes, for example, reviewing outflow factors for individual deposit categories.

With respect to the second line of defence, it is important that banks prepare more collateral for liquidity support provided by central banks. Up to now, banks have not prepared collateral to the full potential for accessing liquidity support from the SNB and foreign central banks. Currently, SIBs have prepared only roughly half of their total collateral potential at the SNB. At the same time, only around ten non-SIBs have finalised preparations or are in the process of preparing collateral for potential liquidity support from the SNB through the Extended Liquidity Facility (ELF). Going forward, it is crucial that all banks give priority to preparing more central bank-eligible collateral. The SNB supports the Federal Council's proposal to require SIBs to prepare a minimum volume of collateral for the purpose of obtaining liquidity support from central banks. It is also important that non-SIBs prepare their central bank collateral to be in line with their contingency funding plans and that internationally active banks prepare collateral with foreign central banks to obtain liquidity support in their relevant foreign entities and currencies.

With respect to the third line of defence, the introduction of a PLB would further strengthen financial stability. In a severe crisis, liquidity needs can be particularly high. Even with better preparation of collateral, there could be situations when the liquid assets of the banks, and their collateral prepared for liquidity support from central banks, may not be sufficient. In such cases, a PLB serves as a third line of defence and would allow the SNB to provide SIBs with additional liquidity as part of a restructuring of the affected bank. The repayment of the liquidity is guaranteed by the government. The Swiss parliament has decided to pause detailed discussions on the PLB until the Federal Council submits its adjustments to the TBTF regulations, as the PLB should be defined in the overall context of these adjustments. They are expected by the end of 2026.[30]

3.4 RISK

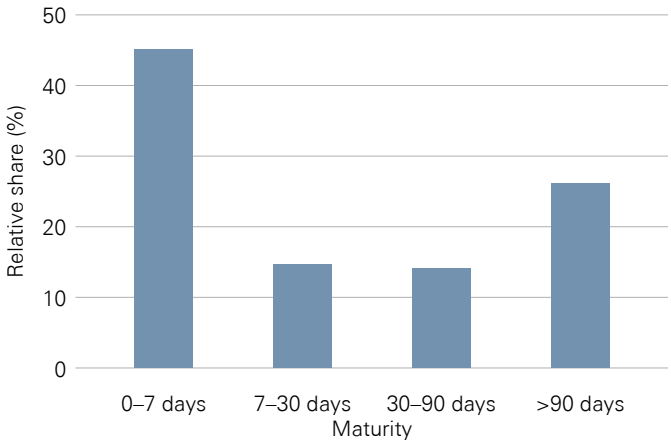
The banking sector is exposed to credit risk, market risk, operational risk, business risk, and interest rate risk in the banking book. The first three risk types are covered under Pillar 1 of the Basel framework; hence, specific RWA requirements apply. Business risk and interest rate risk can be covered by additional capital requirements imposed by FINMA (Pillar 2 of the Basel framework) but they are not subject to specific RWA requirements. Consequently, it is particularly important that these risk categories are assessed through stress tests and market-based indicators.

29 Cf. Federal Council report on banking stability, 10 April 2024, p. 27.

30 Cf. Economic Affairs and Taxation Committee of the Council of States, 'Einbettung der PLB-Diskussion in den Gesamtkontext des Too-big-to-fail-Regelwerks', 25 February 2025, only available in German.

DEPOSIT STRUCTURE

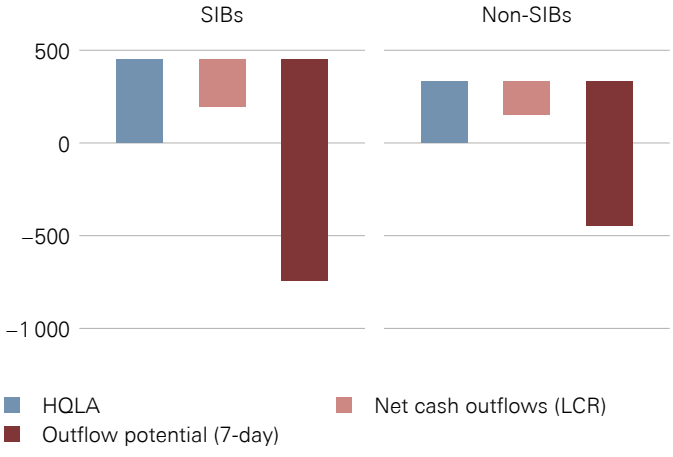
Swiss banking system, as at end-2024 — Chart 3.13



Source(s): SNB

HQLA AND POTENTIAL OUTFLOWS

Aggregated, in CHF billions, as at end-2024 — Chart 3.14



Source(s): SNB

LOAN PORTFOLIO OF THE SWISS BANKING SECTOR

Loans to the non-bank sector; as at end-2024 Table 4

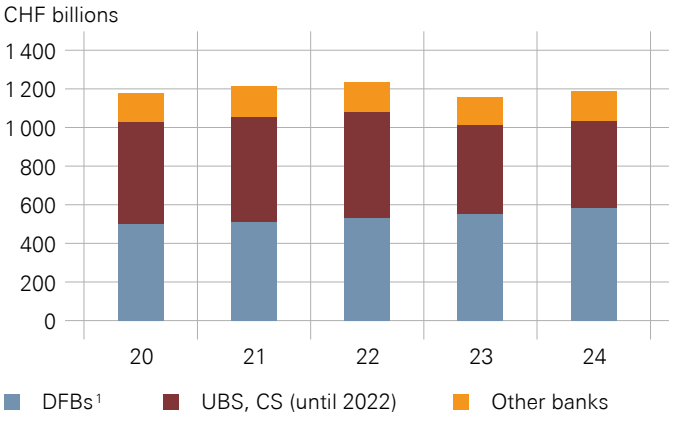
	Domestically focused banks	UBS[1]	Other banks	All banks
Total loans[2] (share of total assets)	**69%**	**37%**	**34%**	**51%**
Mortgage loans (share of total loans)[2]	**89%**	**58%**	**19%**	**71%**
Of which domestic loans[3]	89%	54%	9%	68%
Other secured loans (share of total loans)[2]	**3%**	**35%**	**68%**	**20%**
Of which Lombard loans	2%	25%	58%	15%
Of which domestic loans[3]	3%	–	11%	4%
Unsecured loans (share of total loans)[2, 4]	**7%**	**7%**	**13%**	**8%**
Of which domestic loans[3]	7%	–	5%	6%
Of which domestic consumer loans[3]	<1%	–	<1%	<1%

1 For UBS, not all information is publicly disclosed.
2 Total loans refers to loans and advances to customers on the balance sheet (excluding exposures to banks and off-balance-sheet exposures).
3 Domestic refers to the location of the real estate for mortgages and to the domicile of the customer otherwise.
4 Credit risk of unsecured loans may be mitigated by credit enhancements such as guarantees.

Source(s): SNB

DEVELOPMENT OF TOTAL RWA

By bank category Chart 3.15

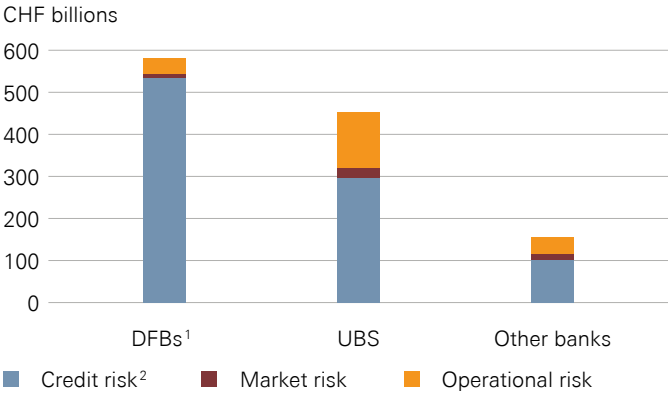


1 Domestically focused banks.

Source(s): SNB

RWA BREAKDOWN

By bank and risk category, as at Q4 2024 Chart 3.16



1 Domestically focused banks.
2 Credit risk includes non-counterparty-related risks.

Source(s): SNB

The SNB thus supports the measure proposed in the Federal Council's TBTF reform package that aims at strengthening the Swiss regulations based on such forward-looking assessments.

In 2024, RWA remained broadly stable compared to the end of 2023, suggesting that the banking sector's overall risk exposure did not change significantly over this period (cf. chart 3.15). Using the level of RWA as a metric, chart 3.16 shows that all banks, and domestically focused banks in particular, are exposed to credit risk. At UBS and the 'Other banks', market risk and operational risk are more significant than at domestically focused banks.

It is important to note that these RWA figures do not yet account for the introduction of the final Basel III standards at the beginning of 2025 (cf. subchapter 3.2 and box 'Selected elements of Basel III Final introduction in Switzerland'). According to the Federal Council's quantitative impact study published in 2022 based on estimates provided by the banks, Basel III Final was expected to increase RWA for the Swiss banking sector as a whole by 16%, driven primarily by the two globally active banks UBS and Credit Suisse. For the remaining banking sector, the expected RWA impact was small or even negative. Based on experiences both in Switzerland and abroad, quantitative impact studies tend to overestimate the impact of regulatory changes on RWA, as they do not take into account banks' adaptation and optimisation measures. UBS's Q1 2025 disclosure shows an RWA impact that is significantly smaller than initially estimated.[31] For the remaining banking sector, this information is not yet available. Overall, Basel III Final could yet lead to more risk-sensitive but ultimately lower RWA for most banks.

3.4.1 CREDIT RISK

Credit risk is the risk of loss due to a client or counterparty failing to make contractually agreed payments. Banks' credit risk exposure can result from on and off-balance-sheet positions.

In the case of Swiss banks, credit risk results primarily from secured loans to the private non-bank sector (cf. table 4). For domestically focused banks, domestic mortgage loans, which make up around 90% of their credit volume, are the main source of credit risk. For UBS, loans that are secured by non-mortgage collateral, such as Lombard loans, and foreign loans also represent a significant share of its credit volume. Moreover, off-balance-sheet positions, counterparty credit risk from financial derivatives and securities financing transactions, as well as loans to banks play a more prominent role for UBS than for most of the domestically focused banks. The 'Other banks' are generally less exposed to credit risk although some of them have significant exposures to Lombard loans. In general, consumer loans account for only a very small proportion of bank loans in Switzerland.

Credit quality of loan portfolios remains high

For the banking sector as a whole, credit quality remained high in 2024. Credit loss expenses[32] decreased slightly year on year to 0.1% of the outstanding volume of loans. The level of value adjustments and the share of impaired loans remained low by historical standards despite increasing marginally. The ratio of non-performing loans to total loans rose slightly. So far, the continuous increase in the corporate bankruptcy rate has not led to a marked decline in banks' credit quality. This likely reflects the fact that, between 2020 and 2024, the bankruptcy rate was significantly below its long-term average. Nevertheless, credit quality in Switzerland might decline somewhat going forward, should the bankruptcy rate increase further.

For UBS, credit loss expenses in 2024 decreased year on year, with 2023 having been characterised by the initial recognition of expected credit loss allowances and provisions as a result of the acquisition of Credit Suisse. Compared to pre-acquisition levels, UBS's credit loss expenses remained elevated in 2024, primarily due to the former Credit Suisse corporate loan book in the Swiss division. However, the overall credit quality of UBS's loan portfolio remained robust; at end-2024, 1.0% of the total loan portfolio was impaired. For domestically focused banks, credit loss expenses in 2024 remained largely unchanged at low levels, as did the share of impaired loans (0.7%). For the 'Other banks' category, credit loss expenses decreased from the higher levels recorded in 2023, which had reflected the impact of insolvencies related to the Austrian Signa Group. Due to these insolvencies, the share of impaired loans remained at 2.5% for these banks.

Risk appetite in mortgage lending is elevated

For new mortgages in the overall banking sector, loan-to-income (LTI) ratios continue to point to elevated affordability risks. In the owner-occupied residential property segment, LTI and loan-to-value (LTV) figures remained broadly constant in 2024 (cf. charts 3.17 and 3.18). In the residential investment property segments, LTI figures increased somewhat in 2024, but remained below the peak observed in 2022. Accordingly, the proportion of new mortgages for which, at a mortgage rate of 3%, debt service and maintenance costs would exceed rents, was 30% (households) and 14% (commercial borrowers) in 2024 (dark red shaded area in chart 3.17), which is above the average for the years 2012–2024. Furthermore, the proportion of high LTV ratios stabilised in these segments in 2024, after declining in recent years (cf. chart 3.18).

While LTI and LTV ratios for new mortgage loans are key risk indicators, they provide an incomplete picture of the

31 UBS's Q1 2025 disclosure (UBS Group AG first quarter 2025 report, p. 41) shows an initial RWA decrease of 2% due to Basel III Final. In a pro forma calculation, the fully applied Basel III aggregate floor (cf. box 'Selected elements of Basel III Final introduction in Switzerland') would increase UBS's RWA by approximately 10% as at Q1 2025. UBS is taking action to mitigate the impact of the floor.

32 Credit loss expenses as reported in the income statement.

overall risk situation in the domestic mortgage market. For instance, the analysis of tax data for households in the canton of Berne suggests that LTI figures overestimate both the level and the dynamics of affordability risks. This analysis allows for a more comprehensive assessment of affordability risks considering, among other factors, households' financial assets (cf. SNB Financial Stability Report 2022, pp. 35–36). In the future, granular loan-by-loan data will enable a more reliable assessment of affordability risks in general, but especially in the case of corporate lending, for which granular information is not currently available.

3.4.2 MARKET RISK

Market risk is the risk of loss arising from adverse movements in market variables. From a narrow perspective, market risk arises mainly in the regulatory trading book, where all positions have to be marked to market on a daily basis. The regulatory framework captures primarily this source of market risk. From a broader perspective, all financial instruments carried at fair value, for example equity investments in the banking book, are affected by movements in market prices and are a source of market risk.

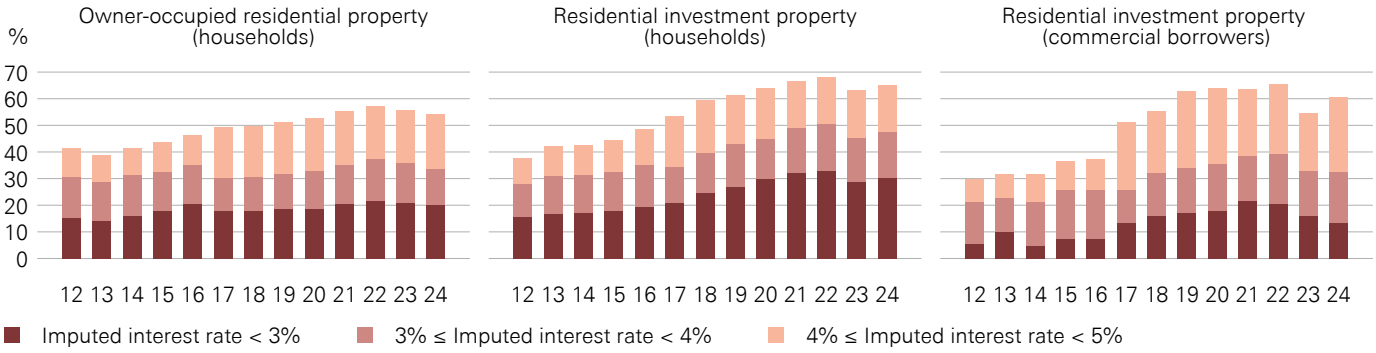
Basel III reforms provide new approach for market risk in trading book

At the beginning of 2025, a new regulatory approach for the calculation of market risk RWA entered into force in Switzerland as part of the final Basel III reform package.[33] This fundamentally reviewed approach implements the lessons learned from the global financial crisis in 2008, which revealed significant shortcomings in the Basel II framework for market risk. The new approach is more

33 This new approach is sometimes referred to as FRTB, which stands for 'fundamental review of the trading book'. A short explanation of this new approach can be found in BCBS, 'The market risk framework – in brief'.

PROPORTION OF NEW MORTGAGES WITH HIGH LTI RATIOS[1]

Proportion where imputed costs exceed rents (residential inv. property) or one-third of income (owner-occ. property)[2] Chart 3.17

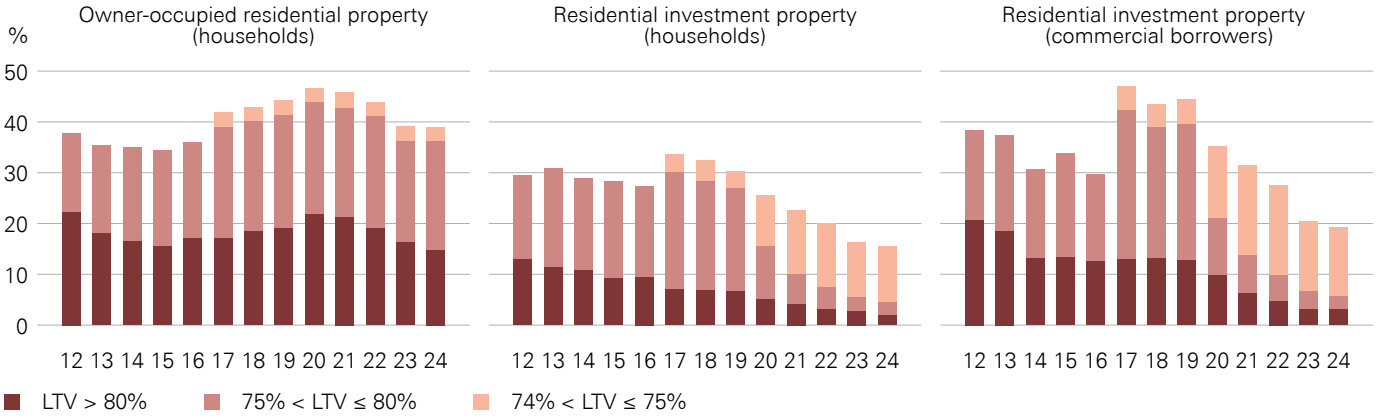


1 From 2017 on, data from the revised 'Survey on new mortgages' is shown.
2 The dark red shaded area shows the proportion where imputed costs exceed rents or one-third of income at an imputed interest rate of up to 3%. The red shaded area shows the additional proportion for an imputed interest rate of between 3% and 4%. The pale red shaded area shows the additional proportion for an imputed interest rate of between 4% and 5%.

Source(s): SNB

PROPORTION OF NEW MORTGAGES WITH HIGH LTV RATIOS[1]

Proportion with an LTV ratio over 74%, 75% and 80% Chart 3.18



1 From 2017 on, data from the revised 'Survey on new mortgages' is shown. Measurement of the 74–75% share has only been possible since 2017.

Source(s): SNB

robust and better addresses market risk observed during stress periods, when the applied hedging strategies in the trading portfolios may not fully protect against very large market shocks and volatility.

The impact of the new approach on market risk RWA will be smaller than initially estimated, due to mitigation measures taken by the banks. An increase was considered crucial from a prudential perspective, as past evidence showed that banks' market risk RWA significantly underestimated the actual risk exposure. According to its first disclosure of market risk RWA under the new approach, UBS's market risk RWA in Q1 2025 increased by 24% due to this new approach. To put this figure into perspective: The estimated increase in the quantitative impact study based on figures reported by Swiss banks based on end-2020 data was four times higher (95%). Large differences between the expected and the actual impact of regulatory reforms have been repeatedly observed in the past as banks adapt to new rules and optimise their portfolios accordingly.

While the new Basel III framework for market risk is more robust, it still needs to be complemented by a prudent risk assessment to capture the full complexity of banks' trading portfolios. Hedging strategies may not always perform as expected in a crisis, which could lead to the realisation of basis risks that are not considered in the model. A prudent assessment of market risks, for example through stress tests, remains important, even after the introduction of a revised and more robust regulatory approach.

Market risk and prudent valuation of fair value positions are relevant mainly for UBS and 'Other banks'

The market risk of UBS and 'Other banks' is an important risk category due to their significant trading activities. At UBS, the share of market risk to total RWA increased from 5% to 6% following the introduction of the new approach. Due to the bank's hedging activities, this share is considerably smaller than the share of trading assets and derivatives in UBS's leverage ratio exposure (20%). For the 'Other banks', the share of market risk under the old approach amounts to 8% of total RWA on average, with significant variation within the category. Domestically focused banks are generally not materially exposed to market risk, as most of them do not have a significant trading portfolio. Market risk under the old approach accounts for about 3% of their RWA on average, with little variation across banks (cf. chart 3.16).

For complex or illiquid fair value positions, it is not only the risk of price changes due to adverse movements in market variables that is important, but also the prudent determination of the price itself. If the price of a complex derivative must be adjusted due to the inadequacy of the pricing model, or a large position must be sold in an illiquid market, a bank may suffer losses even without adverse external market movements. The acquisition of Credit Suisse highlighted the materiality of such valuation aspects (cf. SNB Financial Stability Report 2024, p. 42). As a result, the Federal Council has proposed the introduction of stricter rules for the prudent valuation of fair value positions as part of its TBTF reform package.[34] The SNB supports this proposal.

3.4.3 INTEREST RATE RISK

Interest rate risk results from a mismatch between the repricing maturities of a bank's assets and liabilities. Banks typically use short-term liabilities (i.e. deposits with potentially short, but contractually undefined, repricing maturities) to refinance long-term assets (i.e. loans with relatively long, but contractually defined, repricing maturities). The result of such maturity transformation, which is a key economic function of banking, is that interest rates on assets are locked in for longer than interest rates on liabilities. This exposes banks to upward shocks in interest rates, as interest expenses rise faster than interest income.

The net present value (NPV) approach described in this section assumes a mark-to-market valuation of banks' assets and liabilities, while accounting for interest rate hedges. In other words, the NPV approach (also referred to as the economic value of equity) measures the isolated effect of standardised interest rate changes on the discounted value of future cash flows associated with banks' assets and liabilities. As such, the NPV approach complements the earnings approach used in the SNB's stress tests. The earnings approach simulates the effect of an interest rate shock (within the broader context of a complete macroeconomic scenario) on banks' earnings resulting from changes in interest income (e.g. higher interest rates on mortgage loans) and costs (e.g. higher interest rates on banks' deposits) over a given time horizon.

Interest rate risk in banking sector remains moderate overall

Overall, the banking sector's exposure to interest rate risk declined slightly between 2023 and 2024 and remains moderate (cf. chart 3.19, black diamonds in each point cloud).[35] On average, the domestically focused banks are more exposed to interest rate risk than the 'Other banks', while UBS's exposure falls between the two categories.

The measurement of interest rate risk in the banking book depends largely on the repricing assumptions for deposits without contractual repricing maturities, such as sight and savings deposits. The interest rate sensitivity of these positions depends on the behaviour of the banks'

34 Cf. Federal Department of Finance, 'Erläuternder Bericht zur Eröffnung des Vernehmlassungsverfahrens, Änderung der Eigenmittelverordnung: Umsetzung der Massnahmen aus dem Bericht des Bundesrates zur Bankenstabilität und dem Bericht der parlamentarischen Untersuchungskommission', 6 June 2025, p. 15, only available in German.

35 The heterogeneity across banks regarding the extent of their exposure to interest rate risk is large, reflecting differences in the composition of their assets and liabilities as well as their hedging behaviour. In contrast to the low and negative interest rate environment, where the NPV approach tended to overestimate exposure to an interest rate shock, in a positive interest rate environment this is no longer the case (cf., for example, SNB Financial Stability Report 2022, p. 37).

customers. Banks will adjust the interest rates on such positions more frequently, leading to shorter repricing maturities, if customers are more likely to move their deposits to other banks or other products offering more attractive conditions. Under the banks' own behavioural assumptions – which vary across banks – the impact of the same 200 basis point parallel interest rate increase would amount to an average NPV decline of 7% in CET1 capital (cf. chart 3.19 black diamond in upper point cloud).[36] Assuming repricing maturities of 1.5 years for savings deposits and 15 days for sight deposits for all banks, the impact would be a decline of 18% in CET1 capital (cf. chart 3.19, black diamond in lower point cloud).[37, 38]

Domestically focused banks are more exposed to interest rate risk than rest of banking sector

On average, the domestically focused banks' NPV would decline more than for the rest of the banking sector in response to a parallel interest rate increase of 200 basis points. Depending on repricing assumptions, domestically focused banks' NPV would decline by 7% and 22% of CET1 capital (cf. chart 3.19, upper and lower orange point clouds). For some banks, however, the impact could be significantly higher, reaching around 85% of CET1 capital (cf. chart 3.19, lower orange point cloud).

Due to its global activity, UBS is exposed to interest rate risk in several currencies. UBS actively manages and hedges interest rate risk in the banking book, using derivatives. The impact of a 200 basis point parallel interest rate increase in all currencies in percent of the bank's CET1 capital is typically below the average impact for the domestically focused banks.

3.4.4 BUSINESS RISK

Business risk refers to the risk of reduced revenues, in particular due to a drop in business volume or client activity, combined with cost rigidity. Business risk can materialise when market conditions are unfavourable, but also in the case of idiosyncratic events such as reputational damage. In this case, an outflow of client assets reduces recurring fees and damages the deposit franchise. The risk of a reduction in net interest income (interest rate risk in the banking book) is discussed separately in subchapter 3.4.3.

Business risk can be a very material source of risk for banks, depending on their business model. Net fee and commission income as well as trading income are revenue sources that are particularly prone to business risk. In the wealth management and asset management businesses, revenues consist primarily of recurring fees, which are based on the volume of client assets, and transaction-based fees. Both the volume of client assets and the amount of client transactions depend on market shocks and the prevailing market conditions. Fee and commission income in the investment banking business strongly depends on the demand for advisory services and financial transactions, which may be subdued under uncertain market conditions. In the crisis at Credit Suisse, business risk played a central role as deteriorating revenues at rigid costs led to financial losses and, eventually, a loss of confidence among market participants and clients.

Business risk particularly relevant for banks active in wealth management or investment banking

For UBS, global wealth management, investment banking and asset management are business divisions with significant exposure to business risk. Net fee and commission income and trading income account for

36 The BCBS Standards for Interest Rate Risk in the Banking Book (April 2016) use Tier 1 capital for the NPV calculations. The SNB uses CET1 capital for consistency throughout the Financial Stability Report.
37 The fixed assumptions are repricing assumptions for positions with no contractually defined maturity that are constant over time and that are the same for all banks.
38 FINMA Circular 2019/02 'Interest rate risks – Banks' provides indications regarding outlier classification and potential supervisory measures.

INTEREST RATE RISK OF BANKING SECTOR

Impact of a 200 bp parallel interest rate increase according to different assumptions for the repricing maturities[1] of deposits (NPV impact in percent of CET 1 capital, as at Q4 2024) Chart 3.19

Diamond = average of banking sector

1 Repricing maturity refers to the time period before the interest rate on an interest-bearing asset or liability position is reset.

Source(s): FINMA, SNB

approximately three-quarters of UBS's revenues. The corresponding share at the 'Other banks' is around half of their revenues (cf. subchapter 3.1). Domestically focused banks are exposed to business risk mainly through a potential reduction of net fee and commission income in the event of adverse market conditions. This source of income currently represents around one-quarter of these banks' revenues.

3.4.5 OPERATIONAL RISK

Operational risk is the risk of loss due to inadequate procedures, fraud, failed internal systems, or external events. It also includes legal risk, cyber risk, outsourcing risk and events such as a power shortage. Capital requirements for operational risk constitute a significant share of total RWA at UBS (29%) and at the 'Other banks' (26%). This contribution is high in comparison to other G-SIBs (13%)[39] and to domestically focused banks (7%).

High capital requirements for operational risk RWA reflect complexity of international business activities

The high contribution of capital requirements for operational risk to the RWA at UBS reflects the complexity of international business activities. The combined operational loss history of UBS and Credit Suisse includes several costly litigations, originating primarily from global wealth management, asset management and investment banking activities. This loss history is reflected in UBS's capital requirements for operational risk.

With the introduction of the final Basel III standards, UBS no longer calculates its capital requirements for operational risk based on an internal model approach. Due to the new standardised approach, the bank's capital requirements for operational risk were reduced by 6% in the first quarter of 2025. This new approach for operational risk is less sophisticated than an internal model approach but still risk sensitive, as it depends on the bank's loss history in the previous ten years. If the bank is able to avoid significant operational losses in the coming years, this will be reflected in lower capital requirements for operational risk.

Cyber and outsourcing risks are a growing concern for financial stability

The number of publicly disclosed cyberincidents worldwide has increased in recent years, especially since 2020.[40] In Switzerland, supervised financial institutions continue to be a target for cyberattacks. The number of successful or partially successful attacks reported to FINMA increased by around 30% in 2024 compared to 2023 – in the form of distributed denial-of-service, malware attacks, identity fraud and unauthorised access to the IT systems of financial institutions.[41] About 30% of these attacks targeted third-party providers of supervised institutions.[42]

The outsourcing of important functions from banks to third-party providers continues to represent a significant operational risk for banks.[43] A high proportion of banks typically outsource, at least partially, business processes such as payment, settlement, or IT infrastructure and operations. For cloud services, for example, numerous financial institutions outsource to a small number of service providers. A service disruption resulting, for instance, from a successful cyberattack on a single service provider can therefore have a significant impact on many financial institutions, limiting the capacity of the financial sector to fulfil its function. Furthermore, since some critical service providers are non-financial institutions, they may not fall under the regulatory perimeter.

The responsibility for adequately protecting themselves against operational and, in particular, cyber and outsourcing risks lies primarily with the financial institutions. However, given the interdependencies in the financial system, regulation and supervision are necessary contributors to operational and cyber resilience.

3.4.6 CLIMATE RISK

Climate change could affect banks' traditional core business – for example, as a result of write-downs on loans or trading losses caused by valuation adjustments in stock markets. From a financial stability perspective, the SNB focuses on whether the banking sector and systemically important financial market infrastructures (FMIs) are adequately prepared for climate-related risks. There are essentially two key types of risks induced by climate change: transition risks and physical risks.

Transition risks are the risks associated with transitioning to a low-carbon economy. New laws and regulations as well as technological innovations can lead to disruptions in the economy. For example, a sudden and strong increase in emission taxes or a ban on carbon-intensive production processes could threaten the viability of companies or entire industrial sectors.

Physical risks are risks associated with an increase in the frequency and severity of climate-related natural catastrophes, including weather events (storms, floods, droughts, etc.) as well as longer-term environmental changes (rising sea levels, changes in precipitation patterns, etc.). For example, storms can damage production facilities and infrastructure, leading to declines in economic output.

39 At end-June 2024, operational risk as a share of G-SIBs' minimum required capital averaged around 13% (cf. BCBS, Basel III Monitoring Report, March 2025, p. 51).
40 IMF, Global Financial Stability Report, October 2024, p. 99, and ECB, Financial Stability Review, May 2025, p. 17.
41 FINMA Risk Monitor 2024, p. 17.
42 FINMA Risk Monitor 2024, p. 19, and FINMA Annual Report 2024, p. 37.
43 FINMA Risk Monitor 2024, p. 16.

Banks in Switzerland may be exposed to both transition and physical risks. Hence, the SNB explores the relevance of both sources of risk from a financial stability viewpoint. In a first step, priority has been given to transition risks.

Overall, the analyses so far have shown that the impact of transition risks on domestically focused banks' mortgage portfolios and UBS's corporate exposures is modest when compared to the impact on these portfolios of the macroeconomic stress scenarios used by the SNB to assess the banks' resilience (cf. SNB Financial Stability Report 2024 for domestically focused banks' transition risks).

Regarding UBS's corporate loan exposures, FINMA and the SNB concluded a project in 2025 to improve the assessment of climate transition risks. The analysis was based on the transition scenarios developed by the Network for Greening the Financial System (NGFS) and covered business loans, equities and corporate bonds, including related derivatives. It was designed by FINMA and the SNB and implemented by UBS under close guidance. To take into account company-specific characteristics such as the energy mix used for production, individual transition plans and the level of financial indebtedness, the analysis was conducted at the level of individual companies in the bank's portfolios. The scenario impacts on the financial instruments of these companies were derived from model calculations produced by a well-established climate scenario data provider.

The analysis indicates that the transition to a decarbonised economy poses modest risks to UBS's corporate exposures. The estimated loss potential is driven by corporate loans to sectors vulnerable to transition risk.[44] However, these losses are significantly smaller than those projected for the same portfolios under the SNB's macroeconomic scenarios, such as a global recession or a protracted euro area recession with sovereign stress. Additionally, the transition-related loss potential accumulates until 2050, a much longer timeframe than considered in the SNB's macroeconomic scenarios.

Important caveats apply to this analysis. In particular, long-term forward-looking projections inherently involve significant uncertainty. Estimates around the evolution of climate change and its impact on companies and the wider economy vary substantially. Moreover, data availability and quality were insufficient in some cases. As climate conditions evolve and better data and methodologies become available, the SNB will continue to closely monitor financial stability risks from climate change.

3.5 SNB STRESS TESTING

Stress testing allows for an assessment of how adverse macroeconomic and financial scenarios would affect individual banks' earnings and capital situation. Such analysis constitutes a forward-looking economic assessment of the capital adequacy of banks based on their ability to absorb losses, and complements the regulatory capital figures discussed in subchapter 3.2.

The SNB's stress test approach is characterised by a common methodology that has been continuously refined over recent years. By applying this methodology to bank-specific exposures, the SNB stress test approach generates consistent results across banks that can be compared and aggregated. As such, the SNB's stress tests constitute a useful complement to FINMA's stress tests that are based on banks' own methodologies. These are applied to stress scenarios set by FINMA, for which specific modelling and governance requirements apply. The SNB's stress testing currently focuses on the domestically focused banks and UBS, as they are the primary providers of systemically important functions in Switzerland. The SNB does not disclose quantitative results for individual banks.

The SNB considers four stress scenarios for developments in the economic environment and in financial market conditions. Some of these scenarios help assess the possible impact of an escalation of tensions in international trade, of a rise in geopolitical tensions or of an increase in sovereign stress (cf. subchapter 3.5.1). The stress scenarios are designed for systematically analysing the vulnerabilities and resilience of the Swiss banking sector. They assume highly unfavourable developments that are unlikely but possible and cover a broad spectrum of relevant risk factors. The calibration of shocks is guided by historical experience.[45] The SNB periodically estimates the impact of a set of such stress scenarios on banks, irrespective of how likely a given scenario is considered to be in the short term.

As a general rule, the SNB keeps key parameters of the stress scenarios unchanged relative to previous years' Financial Stability Reports to enable the comparison of stress analyses over time. The short-term likelihood of the various scenarios will thus vary over time. However, the SNB recalibrates its stress scenarios if this is considered necessary to reflect significant changes in vulnerabilities in the banking sector's environment.

This year the protracted euro area recession scenario has been recalibrated to reflect the heightened broad-based concerns regarding sovereign risk due to historically high levels of public debt.

44 These are classified as 'fossil-fuel', 'transportation', 'utility' and 'energy-intensive' (cf. Battiston, S., Mandel, A., Monasterolo, I. et al. (2017), 'A climate stress-test of the financial system', Nature Climate Change, vol. 7, pp. 283–288).

45 In addition to the risks covered by these scenarios, operational risks (including legal and cyber risks) can materialise, in most cases independently of the underlying economic scenario. The purpose of the SNB's stress tests is not to assess banks' resilience to operational risks per se. This task requires in-depth, off and on-site bank supervision, and lies within the remit of FINMA.

3.5.1 STRESS SCENARIOS

The SNB considers the following four stress scenarios for developments in the economic environment and in financial market conditions.

Global recession: A severe recession unfolds in the US and spreads globally. Global financial stress rises significantly, and residential and commercial real estate prices, as well as stock prices, drop sharply. Global interest rates decline.[46]

Interest rate shock: In this stress scenario, a renewed rise in inflation triggers a surge in global interest rates. Subsequently, economic growth stalls, and residential and commercial real estate prices, as well as stock prices, fall sharply.

Protracted euro area recession with sovereign stress: This scenario involves a protracted recession in the euro area and increasing concerns regarding member states' financial soundness. Mounting concerns about the implications of high public debt cause sovereign risk premia for a number of euro area member states to rise significantly, resulting in widespread financial and banking stress. Stock prices drop and corporate spreads widen globally. In many countries, including Switzerland, real estate prices fall significantly. In Switzerland, there is also a protracted recession and interest rates return to negative levels for an extended period.

Emerging markets crisis: Emerging economies experience a severe recession with an abrupt rise in domestic bond spreads and a sharp drop in stock prices. Advanced economies experience a mild recession, but major financial stress. Global interest rates decline.

The first two scenarios help assess the impact of stress in financial markets and declines in economic activity that could result from an escalation of tensions in international trade or from an increase in geopolitical tensions. Depending on their responses to trade policy and geopolitical tensions, individual jurisdictions may experience inflationary or disinflationary pressures. The global recession scenario depicts an environment with low inflation and interest rates, while the interest rate shock scenario depicts an environment with high inflation and interest rates.

The protracted euro area recession with sovereign stress scenario and the interest rate shock scenario help assess the possible impact of sovereign stress and corresponding economic effects. While sovereign stress is likely to trigger uncertainty, a decline in economic activity and an increase in government bond yields, it might be accompanied by either low or high inflation. Moreover, sovereign stress might be focused on individual countries or regions, or it might surface globally. The protracted euro area recession with sovereign stress scenario assumes sovereign stress in the euro area coupled with low inflation. The interest rate shock scenario, in turn, depicts an environment with globally high inflation which might result from sovereign stress at the global level.

3.5.2 IMPACT OF STRESS SCENARIOS

Stress losses would be significant for domestically focused banks, but capital buffers should ensure adequate resilience

The interest rate shock scenario and the protracted euro area recession with sovereign stress scenario are the most relevant for domestically focused banks. The global recession and the emerging market scenarios are less relevant for these banks due to the short recessions assumed in the scenarios for Switzerland and given the banks' limited exposures abroad that these scenarios primarily affect.

Under the interest rate shock scenario, almost all domestically focused banks would experience substantial losses. The losses from their credit portfolios would mainly be driven by higher mortgage interest rates, leading to a materialisation of affordability risks, and by a pronounced drop in real estate prices, exposing a proportion of the banks' mortgage portfolios to under-collateralisation. Mortgages in both the residential and commercial segments would be affected. In addition, due to their high level of maturity transformation, banks would incur a decline in net interest income. As interest rates rise further, funding costs would increase faster than interest income.

Under the protracted euro area recession with sovereign stress scenario, more than half of the domestically focused banks would incur substantial losses, while others would be less affected. Losses on corporate loans and mortgages would increase markedly, driven by lower economic activity, higher unemployment and falling real estate prices. Furthermore, net interest income would decline as maturing loans would be renewed at lower rates, while the pass-through to funding costs would be limited by the zero lower bound on some liability positions. Banks' net fee and commission income as well as their trading income would also decrease due to stress in the financial markets.

Both scenarios would negatively impact the capital situation of domestically focused banks, but to a different magnitude. Under the interest rate shock scenario, losses would be larger than under the protracted euro area recession with sovereign stress scenario, and would deplete a substantial part of these banks' capital buffers. In the absence of counteracting measures by banks, such as reducing lending or building up capital, several banks would fall below the specific capital buffer target levels set by the CAO, and a few of them would even fall below regulatory minima.

46 This scenario definition is similar to the 'severely adverse scenario' in the US Federal Reserve's 2025 stress test.

Overall, though, most domestically focused banks should be able to absorb the losses incurred under the interest rate shock scenario and continue to fulfil their role as credit providers to households and companies. Compared to the stress tests in last year's Financial Stability Report, the domestically focused banks' resilience to shocks has remained broadly unchanged.

Loss potential for UBS remains substantial under stress scenarios

The loss potential for UBS under the various stress scenarios remains substantial and is highest under the global recession scenario. Credit losses in this scenario stem from corporate loan portfolios and counterparty exposures in investment banking, as well as from retail and corporate loan portfolios in Switzerland. Furthermore, this scenario assumes the default of a major hedge fund counterparty. Business risk also plays an important role in this scenario, as the severe market shocks reduce client assets and client activity, leading to lower fee and commission income. Moreover, these financial market shocks result in significant mark-to-market losses on fair-valued credit and equity positions.

The protracted euro area recession with sovereign stress, interest rate shock, and emerging markets crisis scenarios have a smaller but still substantial impact on UBS. The losses under these scenarios originate from the same risk categories as under the global recession scenario, but their relative contributions differ. In the emerging markets crisis scenario, for example, mark-to-market losses and business risk play a particularly important role due to the very severe financial market stress. By contrast, credit losses are moderate, as the recession in advanced economies is milder. Independent of macrofinancial developments, UBS is also exposed to non-financial risks such as operational, compliance and cyber risk that may increase due to geopolitical volatility and tensions.

UBS's resilience will be strengthened if the bank achieves its profitability targets and continues to de-risk its legacy portfolio. UBS's capacity to absorb losses with its operating profits is still affected by ongoing integration-related costs and the operating losses in the non-core and legacy division. UBS is progressing in its cost and risk reduction efforts, improving its profitability and reducing its exposure to adverse scenarios. If the capital measures proposed in the TBTF reforms are implemented, UBS's resilience will improve further.

3.6 MARKET ASSESSMENT

Market-based indicators reflect market participants' assessments of banks' creditworthiness, resilience and expected future profitability. They provide a useful complement to regulatory metrics and stress testing. They can provide early signals regarding deterioration in the financial situation of a bank, even if this is not yet visible in regulatory metrics. These indicators are particularly relevant in the context of early intervention. As shown by the crisis at Credit Suisse, a strong deterioration in market-based indicators may reflect a fundamental loss of confidence, which can complicate a bank's recovery (cf. SNB Financial Stability Report 2024).

For UBS, the assessment of creditworthiness is based on credit default swap (CDS) premia. The lower the perceived credit risk, the lower the CDS premia.[47] For domestically focused banks, given the absence of CDS premia, the assessment is based on spreads between the banks' senior bond yields and risk-free Swiss government bonds with the same maturity. The higher the perceived credit risk, the higher the senior bond spread. Additionally, banks' standalone credit ratings and the ratio of market capitalisation to total equity are used as indicators of the banks' resilience and expected future profitability. A higher ratio of market capitalisation to total equity indicates that investors are willing to pay more for a company's shares relative to its book value, reflecting their belief in the company's potential for future profitability.

No signs of market concerns for domestically focused banks and domestically focused SIBs overall

According to market-based indicators, domestically focused banks' creditworthiness has remained high over the past 12 months. This assessment is reflected, in particular, in the banks' senior bond spreads. As shown in chart 3.20, domestically focused banks' senior bond spreads[48] are low compared to corporate bond spreads and in line with the average values observed over the past decade. Standalone ratings for the domestically focused SIBs and cantonal banks[49] have remained at high levels and corroborate the assessment based on senior bond spreads.

47 It is important to note, however, that market prices include market expectations of government support in a crisis (TBTF issue). CDS premia thus reflect the market's view of the likelihood that the underlying credit will be repaid. It is irrelevant whether the investment is repaid by the bank or by a third party such as the government.
48 The coverage of the banks' senior bond yields, as a percentage of the aggregated balance sheets, is at 80% of all domestically focused banks.
49 As the coverage of standalone ratings for the domestically focused banks is low, only the ratings for domestically focused SIBs and cantonal banks are assessed.

Market participants have positive perception of UBS's resilience and profitability

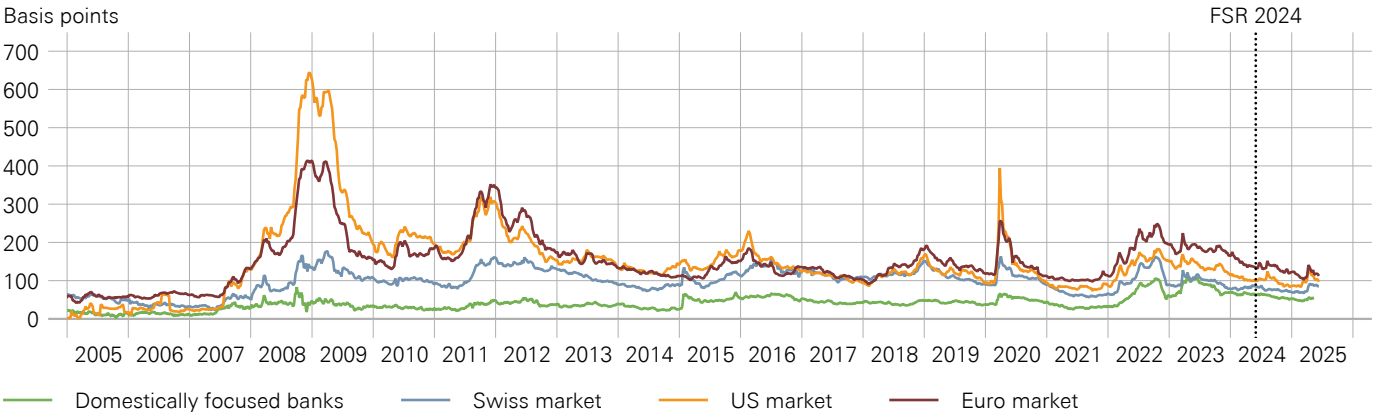
UBS's creditworthiness has improved since the acquisition of Credit Suisse (cf. chart 3.21). After the announcement of broad increases in US tariffs on 2 April 2025, UBS's CDS premia increased, but they have since recovered to levels which are below the median of G-SIBs (cf. chart 3.22).

In an international comparison, UBS AG's standalone ratings from the three major rating agencies, Moody's, S&P and Fitch, are in line with the median for G-SIBs.[50] Thus, the ratings do not reflect any particular concerns regarding UBS's creditworthiness.

50 In addition to standalone ratings, which evaluate the intrinsic financial strength of a bank, the agencies issue long-term credit ratings, which explicitly factor in the possibility of government support in a crisis ('government support uplift'). At holding company level, the three major rating agencies removed this government support uplift a few years ago. At the operating company level, S&P and Fitch have also removed the government support uplift, while Moody's continues to assume that UBS – alongside most other G-SIBs in Europe and the US – benefits from a 'moderate probability of government support' resulting in a 1-notch rating uplift on its deposits and senior unsecured debt.

SENIOR BOND SPREADS[1] OF BANKS VS CORPORATES

Chart 3.20



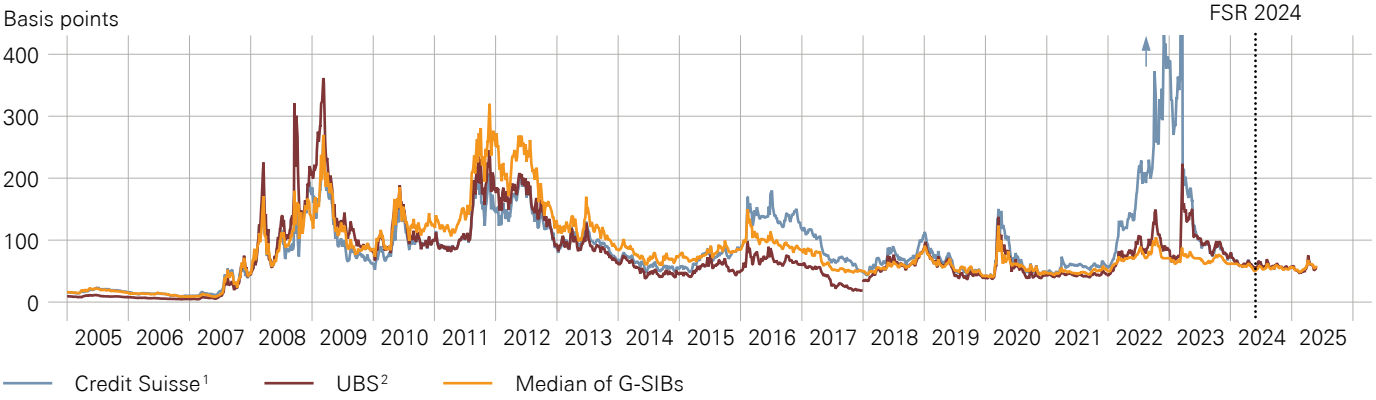
1 Government bond yields are used as risk-free rates. Maturities for banks' bond spreads are 2–8 years and for those of corporates 5–7 years.

Source(s): SNB

INTERNATIONAL COMPARISON OF CDS PREMIA

Premia for credit protection (five-year senior)

Chart 3.21

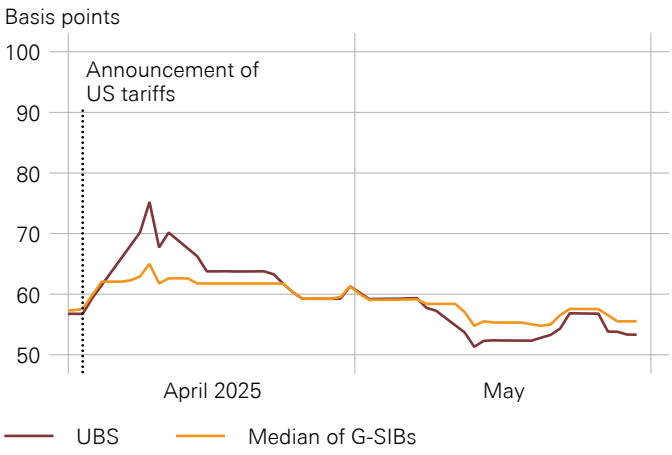


1 Credit Suisse's CDS premia peaked well above 1,000 bps during the crisis in March 2023.
2 Up to end-2017, at operating company level (UBS AG); from 2018, at holding company level (UBS Group AG).

Source(s): Bloomberg, LSEG Eikon

INTERNATIONAL COMPARISON OF CDS PREMIA

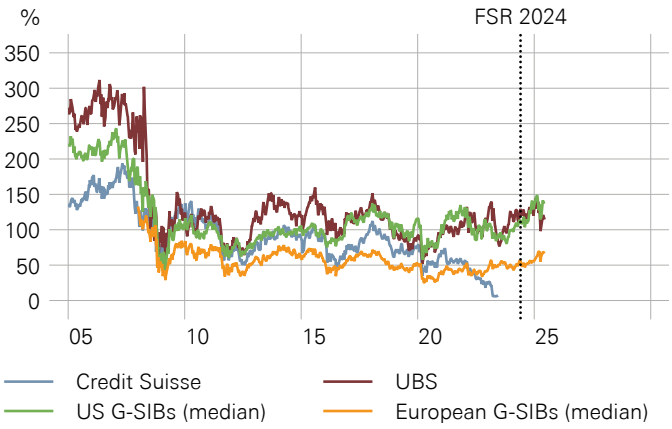
Premia for credit protection (five-year senior) Chart 3.22



Source(s): Bloomberg, LSEG Eikon

MARKET CAPITALISATION DIVIDED BY TOTAL EQUITY

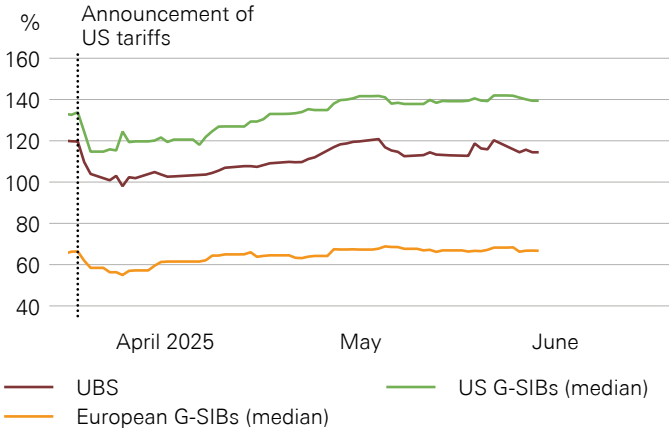
G-SIBs Chart 3.23



Source(s): Bloomberg

MARKET CAPITALISATION DIVIDED BY TOTAL EQUITY

G-SIBs Chart 3.24



Source(s): Bloomberg

Market participants have a positive perception of UBS's potential for future profitability. Its ratio of market capitalisation to total equity has improved since the acquisition of Credit Suisse and is above 100% (cf. chart 3.23). It is slightly below the median of its US peers but considerably above that of its European peers. After the announcement of increases in US tariffs, UBS experienced a significant drop in its ratio of market capitalisation to total equity, as did its US and European peers. UBS's ratio recovered over time (cf. chart 3.24).

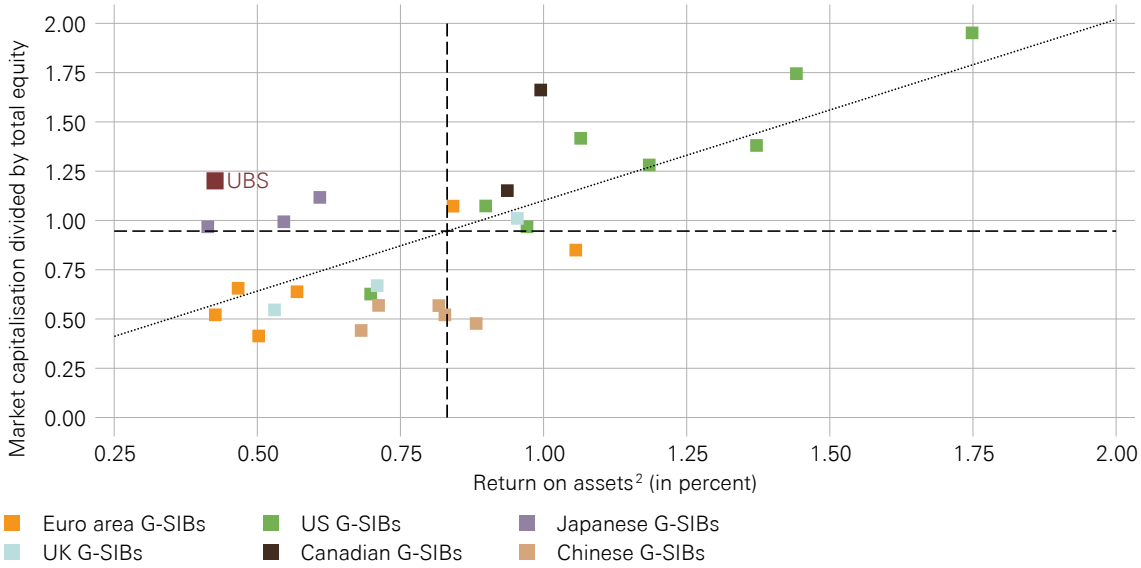
The observed differences in stock market valuation between G-SIBs primarily reflect differences in expected profitability. Chart 3.25 plots the metric for stock market valuation (market capitalisation divided by total equity, y-axis) against a metric for profitability (return on assets, x-axis).[51] UBS's stock market valuation is above the average, even though its profitability is well below the average.

Overall, the different market-based indicators suggest that market participants have a positive perception of UBS's current resilience and future profitability.

51 A similar picture emerges if the ratio of market capitalisation to CET1 capital is used as a measure of stock market valuation, and return on leverage ratio exposure is used as a measure of profitability.

INTERNATIONAL COMPARISON OF MARKET CAPITALISATION DIVIDED BY TOTAL EQUITY WITH RETURN ON ASSETS[1]

G-SIBs, Q1 2025 Chart 3.25



1 The dashed lines show the (unweighted) averages. The dotted line represents the regression of 'market capitalisation divided by total equity' on 'return on assets'. The correlation between the two series is 0.72.

2 Return on assets defined as pre-tax profit of last four quarters as a percentage of total assets.

Source(s): Bloomberg

4 Special topic: Non-bank financial intermediaries play significant role in Swiss financial sector

This special topic describes the size and role of non-bank financial intermediaries (NBFIs) in Switzerland, as well as the interlinkages of Swiss banks with domestic and foreign NBFIs. According to the Financial Stability Board (FSB), NBFIs capture all financial institutions that are not banks, public financial institutions or central banks. The Swiss NBFI sector consists of various types of institution, the most prominent being investment funds, pension funds and insurance companies.[1]

Key features distinguish NBFIs from banks

As financial intermediaries, NBFIs and banks have many commonalities, with respect to both activities and risk profiles. They are also closely interconnected. However, the following key features distinguish NBFIs from banks:

– First, unlike banks, NBFIs are not allowed to engage in money creation. Whenever a bank grants a loan, it creates a matching deposit for the borrower, thereby creating money. By contrast, NBFIs must acquire the funds that they invest or lend to customers.

– Second, the business models of NBFIs typically involve less leverage than those of banks.

– Third, as their respective business with customers typically has longer redemption periods than that of banks, NBFIs tend to be less exposed to the liquidity risks inherent in maturity transformation.

– Finally, as non-banks, NBFIs are outside the perimeter of banking regulation. Most NBFIs are nonetheless subject to specific rules and supervision, primarily aimed at protecting investors and, as a secondary objective, limiting financial stability risks.

Internationally, NBFIs have repeatedly amplified or even triggered financial turbulence

On the one hand, NBFIs provide financial services to individuals and companies, thereby enabling efficient capital allocation and risk diversification while stimulating financial innovation. On the other hand, NBFIs may be a source of risk to financial stability – especially if they are exposed to liquidity risks through their engagement in maturity or liquidity transformation, or if they are materially leveraged. Examples of episodes when NBFIs have amplified or triggered financial turbulence include the money market fund turmoil in March 2020, the failure of the leveraged family office Archegos in 2021, and the UK gilt crisis caused by liability-driven investment in 2022 (cf. chart 4.1). More recently, in April 2025, NBFIs appear to have contributed, alongside other factors, to the increase in Treasury yields during the US financial market turmoil.

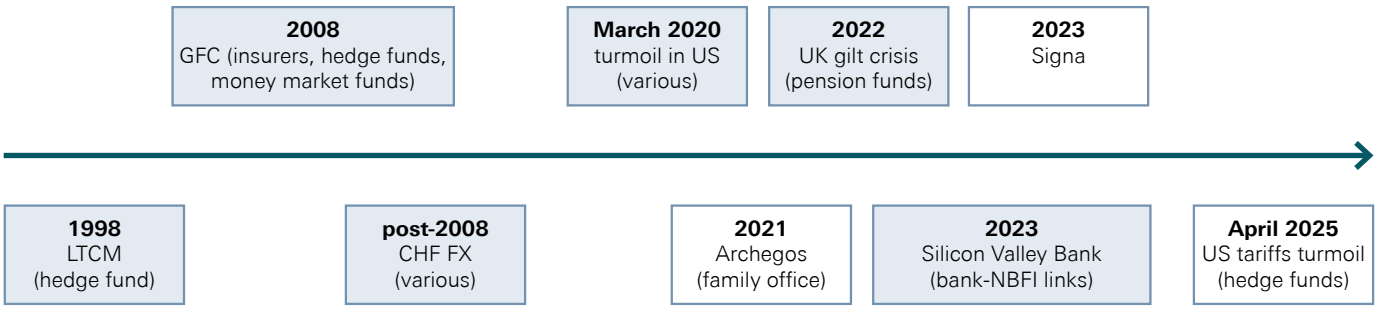
NBFI sector in Switzerland is large and has grown rapidly

The Swiss NBFI sector is large and its growth has outpaced that of the banking sector since the global financial crisis (GFC). With investment funds acting as the key driver, the financial asset holdings of Swiss NBFIs grew from CHF 1,996 billion in 2006 to CHF 4,258 billion as at end-2023 (cf. chart 4.2). To put these figures into

1 Financial market infrastructures (FMIs) are not included in this report, as they provide the infrastructure for the transactions of assets rather than owning any.

EPISODES OF FINANCIAL STRESS WITH NBFI INVOLVEMENT

Chart 4.1



□ = Central bank intervention

Source(s): SNB

perspective, at the national level the asset holdings of Swiss NBFIs account for 535% of Swiss GDP, or 160% of the Swiss banking sector's financial assets. Furthermore, although the growth of NBFIs in Switzerland has significantly outpaced that of the banking sector over the past 20 years, the asset ratio of Swiss NBFIs to banks has stabilised over the past 5 years (cf. chart 4.2, black line). When compared internationally, the Swiss NBFI-to-GDP ratio is elevated, while the NBFI-to-bank asset ratio aligns with the average level in most advanced economies.

Only relatively small subset of NBFIs in Switzerland exposed to bank-like vulnerabilities

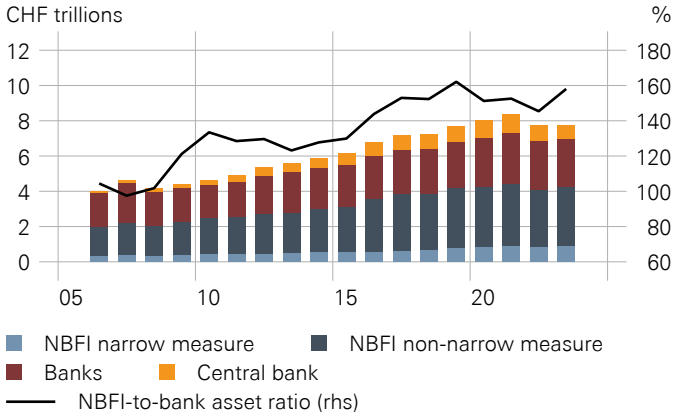
Not all NBFIs – and not all the activities conducted by NBFIs – represent a potential risk to financial stability. To help focus on the potentially riskier part of the NBFI universe, the FSB has introduced a 'narrow measure'.[2] It denotes NBFIs that are exposed to bank-like vulnerabilities through the materiality and nature of their engagement in credit intermediation. NBFIs in this narrow measure mainly comprise investment funds, securities firms and corporate leasing firms. By contrast, NBFIs not included in this narrow measure will be less likely to pose a risk to financial stability because their credit intermediation activity is small and/or does not involve significant maturity transformation or leverage (e.g. life insurance companies or pension funds).

In Switzerland, NBFIs meeting the criteria of this narrow measure represent about 20% of the NBFI aggregate[3] – a share which is similar to, but slightly lower than, the average in advanced economies – or about 10% of the total Swiss financial sector (including banks; cf. chart 4.2).

2 Within this narrow measure, the FSB framework classifies riskier non-bank financial entities into five economic functions (EFs), each involving bank-like financial stability risks: collective investment vehicles with features that make them susceptible to runs (EF1), lending dependent on short-term funding (EF2), market intermediation dependent on short-term funding (EF3), facilitation of credit intermediation (EF4), and securitisation-based credit intermediation (EF5).
3 The remaining share of about 80% represents the 'non-narrow measure'.

SWISS FINANCIAL SECTOR

Total financial assets[1] Chart 4.2



1 Financial accounts view (excluding foreign subsidiaries).

Source(s): FSB

The aggregate size of NBFIs in the narrow measure came to about 110% of Swiss GDP at end-2023 while their growth has outpaced that of the NBFI aggregate over the past decade.

Although, as a whole, NBFIs in Switzerland hold a sizeable proportion of financial assets, individual NBFIs tend to be relatively small when compared with banks. In terms of financial asset holdings, the average bank in Switzerland is about 23 times bigger than the average investment fund. The contrast between the respective largest institutions is even starker. While the balance sheet of the largest Swiss investment fund stood at about CHF 30 billion at end-2023, this figure was about 7 times higher for the average Swiss domestically focused SIB and 48 times higher for UBS.

Furthermore, according to FSB metrics, the financial leverage of NBFIs such as investment funds, insurance companies and pension funds tends to be significantly lower than that of banks. However, some NBFIs such as mortgage bond institutions are also characterised by a high level of leverage. Furthermore, like banks, some NBFIs use derivatives and complex trading strategies, making it generally more difficult to measure their actual financial leverage.

Interlinkages between Swiss banks and NBFIs are material

The interlinkages of NBFIs with the banking sector can be another source of risk to financial stability. Such interlinkages can act as shock transmission mechanisms and lead to, or amplify, contagion effects. NBFIs can also indirectly contribute to systemic risks through common exposures and concentration. For instance, they are increasingly relying on investment funds to manage their financial assets.[4] Investment funds could use similar investment strategies, contributing to the build-up of common exposure risks related to specific asset markets – such as investments in the domestic real estate market or in government bonds of specific foreign jurisdictions.

Banks and NBFIs are directly connected. For instance, funding channels can work in both directions, as banks often lend to or invest in NBFIs while these in turn provide funding to banks, use their payment systems or deposit the non-invested part of customer assets with custodian banks. It is the larger banks which tend to offer the more complex products to NBFIs. In their prime brokerage business, global banks offer different types of derivatives to their NBFI customers, such as fixed income or interest rate swaps, which banks use to either hedge positions or explicitly take risks in response to customer demand.

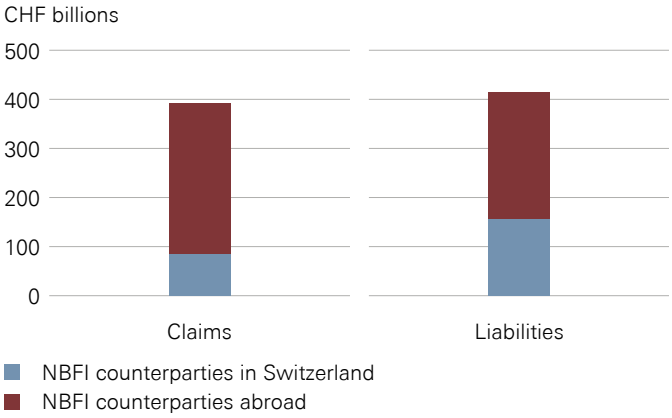
4 Cf. IMF, 'Non-Bank Financial Institutions and Vulnerabilities: The Case of Switzerland', IMF Staff Country Reports, vol. 2023, issue 197, p. 30.

A substantial share of the NBFI business reported by banks in Switzerland is conducted with counterparties abroad (cf. chart 4.3). The largest share of claims reported by the Swiss banking sector is held against NBFIs in the US, followed by NBFIs in Switzerland and the UK, and with a focus not only on lending but also on derivatives and securities financing transactions. On the liabilities side, most of the funding that the Swiss banking sector obtains from NBFIs is sourced domestically and in the form of deposit holdings. Offshore centres play a significant part on both sides of the balance sheet.

The Swiss banking sector's business with NBFIs is not only very internationalised, showing a distinct pattern for claims and liabilities, but it is also concentrated at the largest Swiss banks. About 67% of all claims and 60% of liabilities vis-à-vis the NBFI sector are reported by UBS. By contrast, cantonal banks (which play an important role in the domestic mortgage and corporate lending markets) have a mere 11% share of NBFI claims. The pronounced internationalisation and geographical breakdown of the interlinkages between banks and NBFIs reflect UBS's international business model. Notably, the international business captures not only on but also off-balance-sheet exposures, including contingent liabilities such as committed credit lines, guarantees or credit derivatives that UBS holds vis-à-vis primarily international NBFIs.

SWISS BANKS' EXPOSURES VIS-À-VIS NBFIs

By counterparty residence, as at end-2023 — Chart 4.3



Note: Total consolidated claims and liabilities on an immediate borrower basis.

Source(s): SNB

Population of Swiss NBFIs

This box characterises five non-bank financial intermediary (NBFI) types operating in Switzerland: investment funds, pension funds, insurance companies, mortgage bond institutions and securities firms. This selection is based on relevance but also reflects data constraints.[5] Other NBFI types such as trusts and family offices or finance companies also play a role in the Swiss NBFI universe. However, data for these players is particularly scarce and their size can only be estimated approximately (cf. chart 4.4).

– **Investment funds** are professionally managed investment vehicles allowing individuals and institutions to invest in pools of different types of assets. They are supervised by the Swiss Financial Market Supervisory Authority (FINMA) and regulated by the Collective Investment Schemes Act (CISA).[6] At end-2023, about 2,000 investment funds were operating in Switzerland.

  While the average investment fund is relatively small, the size of individual funds varies. The average investment fund reports financial asset holdings worth less than CHF 1 billion, while that figure averages CHF 25 billion for the five largest funds. To put these figures into perspective, the average financial asset holdings of banks in Switzerland amount to CHF 15 billion, and to CHF 430 billion for the five largest banks.

  Different types of funds and investment strategies cater to investors with different needs and risk-taking preferences. Equity, fixed income and multi-asset funds account for around 70% of the Swiss-based investment fund sector (cf. chart 4.5). Swiss money market funds play a minor role, with assets accounting for only 4% of the overall market. Moreover, a new fund segment, limited qualified investor funds (L-QIFs), has recently been introduced in Switzerland.[7]

  Risks ensuing from leverage or derivative exposures vary by type of fund and are restricted by regulation.[8] Real estate funds show the highest leverage[9] of about 1.35 (regulatory limit of 1.5), while other fund types have no material leverage on their balance sheet. The

5 Data availability varies widely and often reflects regulatory tightness, the level of supervision and ensuing disclosure requirements. While the SNB has no data on specific derivative exposures for any NBFI, it is able to estimate liquidity and leverage for some NBFI types. Aggregation by type of NBFI follows the 2008 SNA (System of National Accounts).

6 The Collective Investment Schemes Ordinance (CISO) and FINMA Collective Investment Schemes Ordinance (CISO-FINMA) complement CISA with regard to the implementation of the regulatory framework.

7 L-QIFs are collective investment schemes that are only open to qualified investors and are exempt from authorisation, approval and supervision by FINMA (art. 118a CISA). L-QIFs have been allowed to operate in Switzerland since 1 March 2024. They aim at providing competitive alternatives to foreign funds subject to a simplified regulatory framework.

8 Security funds (arts. 72 and 77 CISO), real estate funds (arts. 91 and 96 CISO), other funds for traditional investments and other funds for alternative investments (art. 100 CISO).

9 Leverage is defined as assets under management divided by net asset value.

vast majority of funds follow open-ended schemes, which offer investors the right to redeem shares at short notice at net asset value (NAV).[10] Their inherent structural liquidity mismatch might expose these funds to bank-like run risks. Funds aiming to preserve a constant value per share, so-called CNAV funds, are not permitted to operate in Switzerland, as their business model imitates the nature of bank deposits, which are particularly prone to runs.

– **Pension funds** offer long-term savings vehicles to provide income for individuals in retirement. There are more than 1,300 pension funds in Switzerland and their average balance sheet size stands at CHF 0.9 billion, with the largest one coming to around CHF 40 billion. Eligible asset classes for their investments include equities, fixed income, covered bonds, real estate and collective investment schemes; some funds also engage in mortgage lending (cf. chart 4.6).[11] Pension funds hold a significant share of their investments in foreign assets. Supervision is divided among eight regional authorities.[12]

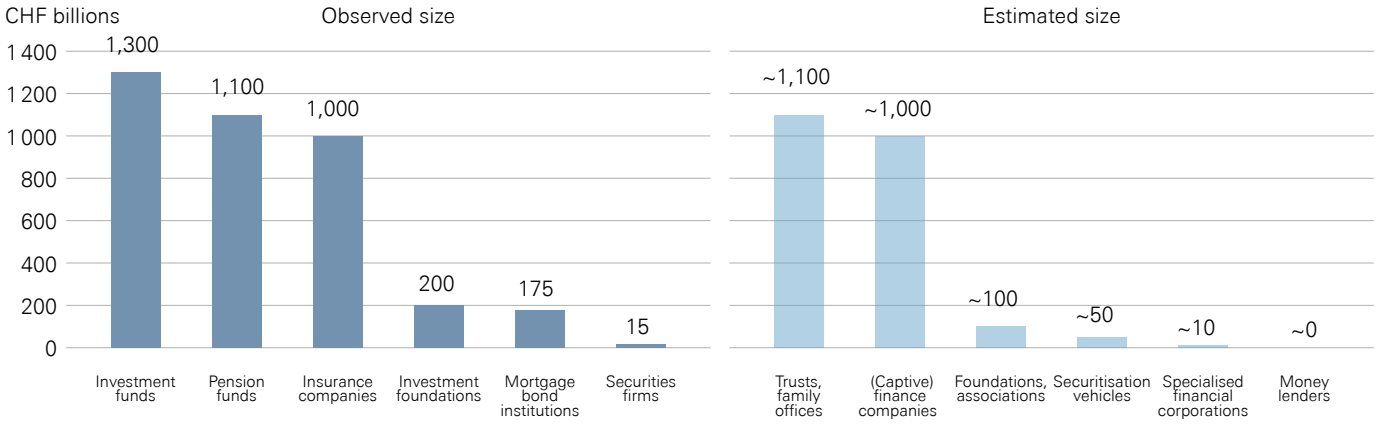
On and off-balance-sheet financial leverage of pension funds is low and subject to tight restrictions. Pension funds are also obliged to rebalance their portfolio to maintain certain asset class limits.[13] Furthermore, strict limitations on customer withdrawals reduce

10 Real estate funds are one exception, offering a 12-month redemption period (art. 66 CISA).

11 Pension funds account for only a 2% share of the Swiss mortgage market, corresponding to 3% of their total assets.
12 The Occupational Pension Supervisory Commission oversees the eight regional authorities responsible for direct supervision.
13 Cf. art. 55 Ordinance on Occupational Old Age, Survivors' and Invalidity Pension Provision.

SIZE OF SWISS NBFI SECTOR[1]

As at 2023 — Chart 4.4

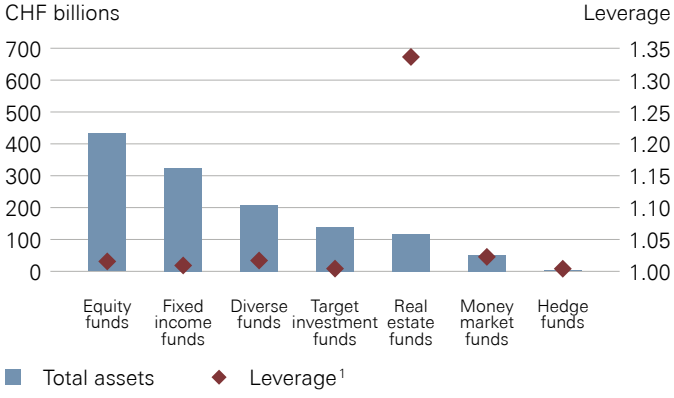


1 Total group balance sheet size = total assets including foreign subsidiaries; managed assets for 'trusts, family offices'. Rounded to CHF 5 billion.

Source(s): FINMA, SFSO, SNB, others

INVESTMENT FUND SECTOR

Size and leverage as at end-2023 — Chart 4.5

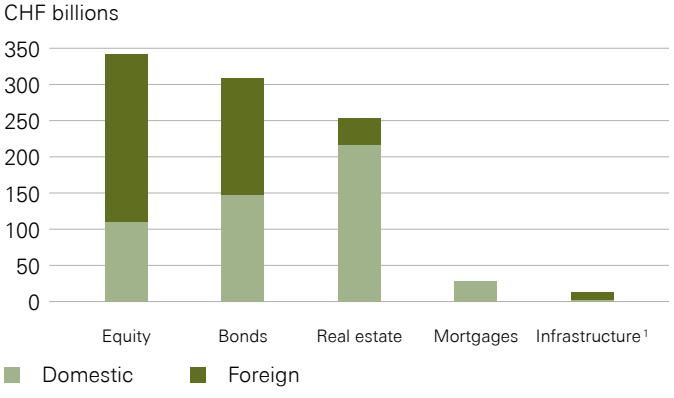


1 Weighted average leverage by fund investment strategy. Leverage defined as assets under management divided by net asset value.

Source(s): SNB

SWISS PENSION FUND INVESTMENTS

As at end-2023 — Chart 4.6



1 Infrastructure investments are large scale (e.g. transportation, energy, social and utilities), long term and primarily via private equity or hedge funds.

Source(s): SFSO

potential risks. Still, vulnerabilities could arise from common exposures across pension funds, low diversification at the individual pension fund level, substantial foreign exposures and related exchange rate risks. Against the backdrop of granular asset class limits and pension funds' considerable balance sheet size, their portfolio rebalancing can amplify the impact of shocks. For instance, a sudden surge in financial market volatility abroad can spill over into domestic asset markets and, in particular, into the domestic real estate market.

– **Insurance companies** provide households and companies with protection against a variety of risks in exchange for premiums. There are over 200 insurance companies registered in Switzerland, most of which are regulated and supervised by FINMA (cf. chart 4.7).[14] The average balance sheet size across all entities is approximately CHF 4 billion. The Swiss insurance market is highly concentrated, particularly in the largest segment – life insurance.[15] The six largest life insurers, for example, accounted for an 85% share in this segment's written premiums, while their average balance sheet size amounted to CHF 44 billion at end-2023.

Some insurance companies engage in bank-like activities such as mortgage lending[16] or offer bank-like savings vehicles for clients, such as life insurance. The latter can be a material source of liquidity risk. More generally, insurance companies tend to be exposed to interest rate risk due to the long duration of their liabilities. In order to limit their exposure to interest rate risk, they tend to invest their premiums in assets of a similar duration, or use interest rate swaps.

Such derivative contracts used to manage potential asset/liability mismatches are another interconnection with the banking sector. As noted by FINMA,[17] a potential source of systemic risk might be the exposure of life insurers to the real estate sector. Recently introduced regulation limits insurance companies' exposure to real estate investments and mortgages while addressing issues such as the security, quality, liquidity and profitability of their respective portfolios.

– **Mortgage bond institutions** issue covered bonds to enable banks to access low-cost, long-term funding. There are two mortgage bond institutions operating in Switzerland, each offering services to one of two distinct groups[18] of banks. Both institutions are supervised and regulated by FINMA.[19] Their combined balance sheet size amounts to around CHF 175 billion, split almost equally between the two.

Generally speaking, banks' refinancing via mortgage bond institutions constitutes an important source of funding, amounting to as much as 30% of their balance sheet for some banks. Conversely, about 15–17% of all mortgages issued by Swiss banks are used as collateral with mortgage bond institutions.

From a financial stability perspective, potential amplification mechanisms could arise in the event of a mortgage market crisis due to the strong interlinkages between mortgage bond institutions and banks.

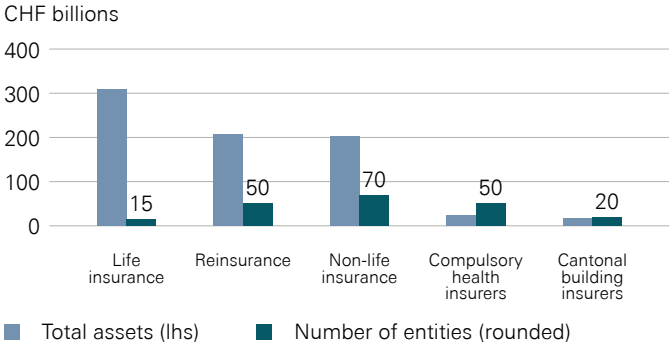
– **Securities firms** facilitate the trade of financial securities by acting as intermediaries between buyers and sellers. About 40 entities, regulated and supervised by FINMA, are registered in Switzerland, managing assets totalling CHF 14 billion. However, the sector is very concentrated, with the top three players accounting for about 90% of the market.

14 At end-2023, 194 active insurance companies were supervised by FINMA. In chart 4.7 we focus solely on the subset of approximately 135 domestically operating entities for which data is available in the FINMA Insurance market report 2023, as well as two further significant segments – compulsory health insurers (regulated by the Federal Office of Public Health) and building insurers (regulated at a cantonal level).
15 In April 2025, the merger between Helvetia and Baloise – the second and third-largest life insurers in Switzerland – was announced, further increasing market concentration. The merger is expected to be completed by Q4 2025. The new entity, Helvetia Baloise Holding Ltd, will be the second-largest insurance group in Switzerland.

16 Despite a low and declining market share in the overall mortgage market (3%), insurers – particularly life insurers – have increased their exposure to real estate in the low interest rate environment of recent years.
17 Cf. FINMA Risk Monitor 2024, p. 7.
18 Cantonal banks and other Swiss banks.
19 Mortgage bond institutions have to comply with the Mortgage Bond Act and the Mortgage Bond Ordinance. In addition, the laws governing banks apply where specific reference is made to mortgage bond institutions.

OVERVIEW OF THE SWISS INSURANCE MARKET

Balance sheet size and number of domestically operating entities, as at end-2023 — Chart 4.7



Note: Values for FINMA-supervised insurance companies (e.g. the North American branch of Zurich Insurance would be excluded, while Allianz Suisse would be included).

Source(s): Annual reports, Federal Office of Public Health, FINMA

The largest has a total of CHF 9.2 billion in assets, compared to an average of CHF 125 million for the remaining securities firms.

There are two groups of securities firms that differ in terms of their economic function and corresponding regulation[20] depending on whether or not they offer client accounts.[21] The first group acts as brokers, providing access to securities trading and serving as custodians. The second does not hold customer accounts but instead offers structured products and underwriting[22] while acting as market makers when trading on their own accounts.

Since the balance sheet of securities firms primarily consists of trading financial assets, mark-to-market derivatives and other fair value assets, market volatility can have pronounced effects on the value of their assets.[23] Additionally, liquidity risks may arise through higher margin requirements from counterparties in times of elevated market volatility. Most securities firms operate with low balance sheet leverage, but there are exceptions – some have bank-like levels of leverage.

Better understanding required of NBFIs' potential risks for financial stability

Future work should be directed at the identification and assessment of the economic importance of NBFIs, their risk profile – with a focus on liquidity risk and leverage – and their interconnection with the banking sector. The objective is to enable an assessment of the vulnerabilities stemming from the non-bank financial sector, which will help in designing policies aimed at mitigating such vulnerabilities.

Moving in this direction requires a collective effort both nationally and internationally. At the national level, important steps include i) ensuring a comprehensive mapping of relevant NBFIs for Switzerland, ii) identifying and filling key data gaps, iii) developing the analysis of the economic importance and key risk characteristics of NBFIs using available and newly collected data, and iv) identifying weaknesses in the Swiss NBFI regulatory framework. This work will necessitate close collaboration, in particular between the SNB, FINMA, the Occupational Pension Supervisory Commission, the Federal Department of Finance and the State Secretariat for Economic Affairs (SECO).

At the international level, the SNB is actively contributing to key initiatives currently underway. For instance, the SNB contributes actively to the FSB's NBFI policy work. More specifically, the SNB's work focuses on defining those NBFI activities and/or types that should be prioritised and examined based on financial stability considerations. The SNB is also a member of the Risks and Vulnerabilities Assessment Group (RVG) that leads work by the Basel Committee on Banking Supervision (BCBS) on the monitoring and assessment of risks and vulnerabilities which could impact the resilience of the global banking sector. As part of this work, the BCBS will pursue a deep-dive analytical investigation into banks' interconnections with NBFIs in 2025 and 2026.[24] In particular, the BCBS will conduct a deep-dive investigation into synthetic risk transfers (SRTs).[25] SRTs can be used to transfer banks' credit risk to NBFIs, helping banks manage risk and/or reduce regulatory requirements. While SRTs are not a new financial product, their use has grown and transaction structures have evolved in recent years. The investigation will seek to better assess the benefits and risks posed by SRTs.

20 While the account-keeping securities firms have to comply with the Liquidity Ordinance and the Capital Adequacy Ordinance (CAO) as banks do, non-account-keeping firms do not have to fulfil such bank-like requirements.
21 Cf. art. 44 para. 1 Financial Institutions Act (FinIA) for explanation.
22 Underwriting involves assisting companies in issuing new securities for other entities as defined in art. 12 (a) FinIA.
23 As an example of the high level of interlinkages of NBFIs with banks, Raiffeisen Group held around 30% of shares in one NBFI at end-2024.

24 Cf. BIS, 'Basel Committee work programme and strategic priorities for 2025/26'.
25 Cf. BIS, 'Basel Committee progresses work to strengthen supervisory effectiveness, initiates analytical work on information and communication technology risk management and synthetic risk transfers'.

Abbreviations

AT1	Additional Tier 1
Basel III	International regulatory framework for banks developed by the BCBS
Basel III Final	'Basel III: Finalising post-crisis reforms', in force in Switzerland since 1 January 2025
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CAO	Capital Adequacy Ordinance
CCyB	Countercyclical capital buffer
CDS	Credit default swap
CET1	Common Equity Tier 1
CISA	Collective Investment Schemes Act
CISO	Collective Investment Schemes Ordinance
CNAV	Constant Net Asset Value
CS	Credit Suisse
DFB	Domestically focused bank
DF-SIB	Domestically focused systemically important bank
ECB	European Central Bank
EF	Economic function
ELF	Extended Liquidity Facility
FinIA	Financial Institutions Act
FINMA	Swiss Financial Market Supervisory Authority
FMI	Financial market infrastructure
FSB	Financial Stability Board
FSR	SNB Financial Stability Report
GDP	Gross domestic product
GFC	Global financial crisis
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRB	Internal ratings-based (approach)
LCR	Liquidity coverage ratio
L-QIF	Limited qualified investor fund
LTI	Loan to income
LTV	Loan to value
NAV	Net asset value
NBFI	Non-bank financial intermediary
NGFS	Network for Greening the Financial System
NPV	Net present value
NSFR	Net stable funding ratio

OECD	Organisation for Economic Co-operation and Development
PLB	Public liquidity backstop
RVG	Risks and Vulnerabilities Assessment Group
RWA	Risk-weighted assets
SECO	State Secretariat for Economic Affairs
SFSO	Swiss Federal Statistical Office
SIB	Systemically important bank
SRT	Synthetic risk transfer
TBTF	Too big to fail
ZKB	Zürcher Kantonalbank

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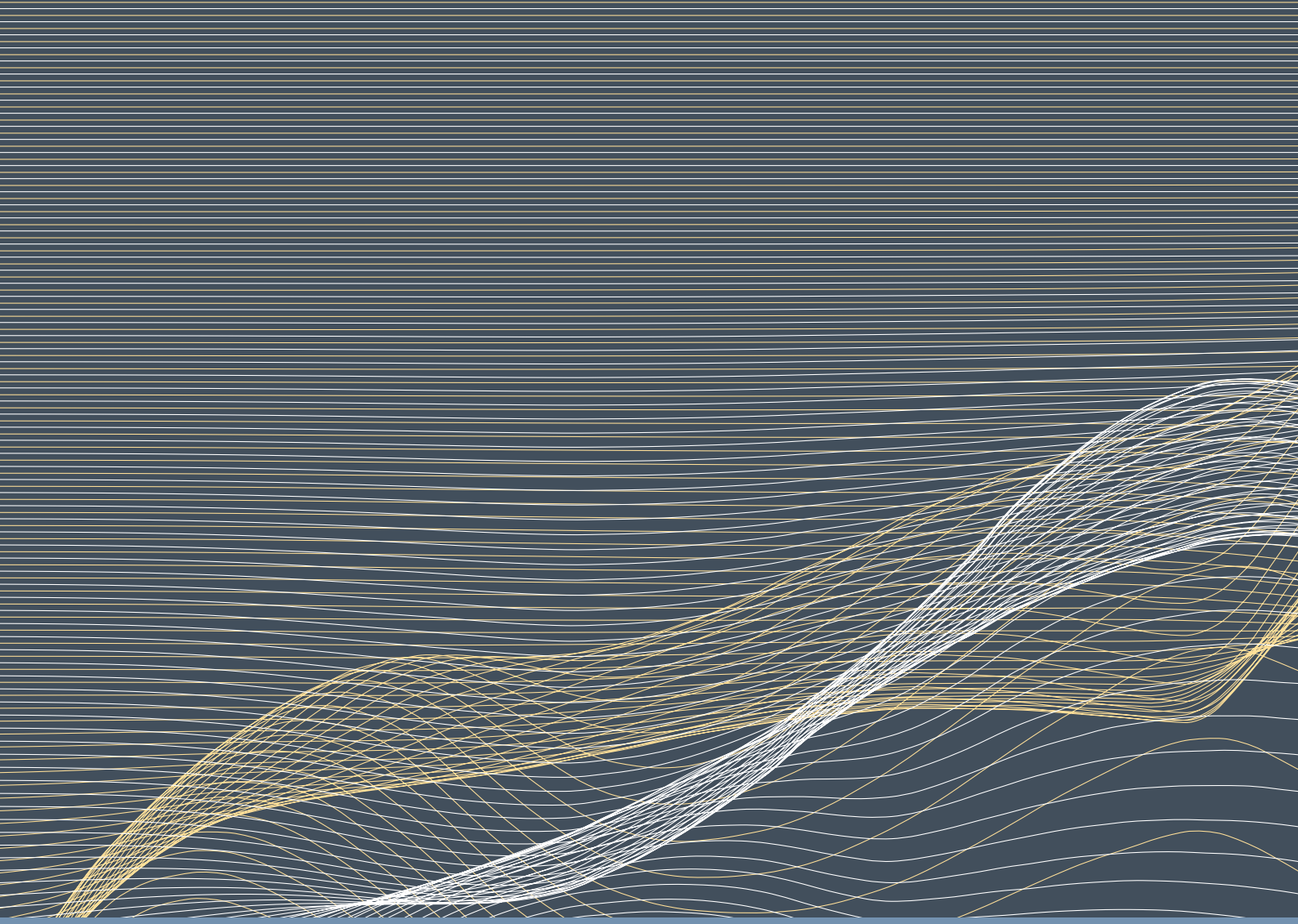

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