Research Update:

Credit Suisse AG Downgraded To 'A-/A-2' On Execution And Franchise Risks Under Restructuring Plan; Outlook Stable

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Overview

- On Oct. 27, 2022, Credit Suisse announced a deep, multi-year restructuring plan to address its persistently underperforming investment bank and elevated cost base.
- We see material execution risks amid a deteriorating and volatile economic and market environment and note that some details around asset sales remain unclear.
- Credit Suisse's third-quarter earnings pointed to a weakened franchise as its leading wealth management business proved less resilient than previously anticipated, demonstrated by client money outflows and an inflexible cost base.
- We lowered our long- and short-term issuer credit ratings on lead operating bank Credit Suisse AG and other core operating subsidiaries to 'A-/A-2' from 'A/A-1', and our long-term issuer credit rating on nonoperating holding company Credit Suisse Group AG to 'BBB-' from 'BBB'.
- The stable outlook reflects contained downside risk at the lower rating level, assuming the bank maintains robust capital, supported by an underwritten capital raise that will add about 140 basis points to the Common Equity Tier 1 (CET1) ratio. It also reflects our assumption that the liquidity buffer will be strong across the group, and that the group will deliver the restructuring plan.

Rating Action

On Nov. 1, 2022, S&P Global Ratings lowered its long- and short-term issuer credit ratings on Credit Suisse AG, the principal operating bank of the Credit Suisse group (Credit Suisse), and other core subsidiaries to 'A-/A-2' from 'A/A-1'.

At the same time, we lowered our long-term issuer credit rating on Credit Suisse Group AG, the group's nonoperating holding company, to 'BBB-' from 'BBB'.

We also lowered our long-term resolution counterparty ratings (RCRs) on Credit Suisse AG and its rated subsidiaries in Switzerland, the U.K., Spain, and Germany to 'A' from 'A+', and affirmed the

'A-1' short-term RCRs. We lowered our long- and short-term RCRs on Credit Suisse Securities (USA) LLC to 'A-/A-2' from 'A/A-1'.

We downgraded all Credit Suisse Group AG's senior unsecured debt, as well as the subordinated and hybrid capital instruments issued by group entities, by one notch.

The outlook on all entities is stable.

Rationale

Credit Suisse's restructuring plan involves a fundamental overhaul of its underperforming investment bank and elevated cost base. On Oct. 27, 2022, Credit Suisse announced its measures to restructure its banking operations. Under its transformation plan, it intends to transition by 2025 to a more resilient and capital-efficient business model that primarily focuses on wealth management, asset management, and Swiss banking. Radical measures have been announced for the loss-making investment bank, where Credit Suisse will retain only those segments that it sees as integral to its core businesses, particularly equities and foreign exchange. It has reached a framework agreement to sell a majority interest in its securitized products business and it plans to carve out capital markets and advisory businesses into a separate entity, CS First Boston. A noncore unit will manage down other assets with an unattractive risk-return profile. Credit Suisse expects these steps will reduce the investment bank's capital allocation by about 40% by 2025. Improved cost efficiency is a further priority, and the group targets Swiss franc (CHF) 2.5 billion of net savings by 2025 (excluding the impact of divestments).

We see material execution risks in the transformation plan. In our view, the restructuring measures are more decisive than previous attempts and have the potential to establish a simpler, more stable, and less risky bank. However, we see significant execution risks given the complexity of the multi-year program and the difficult economic and market environment, which could adversely affect the speed and costs of the run-down of noncore assets. The future positioning of CS First Boston in a competitive environment is also unclear and we see considerable uncertainty regarding its future funding and ownership, for example.

We think Credit Suisse's banking franchise has weakened. Credit Suisse continued to show weak operating performance in the third quarter, reporting its fourth consecutive quarterly net loss with no quick recovery in sight. Its pivotal wealth management business continues to underperform our expectations, affected by the sectorwide reduction in asset values and client activity as well as its elevated, inflexible cost base and a less resilient revenue mix. As a result of the market turbulence in early October 2022, the group reported a significant outflow of assets under management and experienced significantly higher withdrawals of cash deposits, as well as nonrenewal of maturing time deposits. Although the group fell below certain legal entity-level regulatory requirements, the core requirements of the liquidity coverage ratio and the net stable funding ratio at the group level have been maintained at all times. We see a risk of further outflows while Credit Suisse's new management team works to rebuild confidence in the bank.

We expect Credit Suisse to underperform its peers for the foreseeable future. We think the group's main peers exhibit better track records of profitability and risk management, which we continue to reflect for Credit Suisse through a negative notch under our comparable ratings analysis. The bank anticipates a mediocre 6% return on tangible equity in 2025, or 8% for the core businesses. Its 2023-2024 performance will be adversely affected by restructuring charges and losses in the noncore unit. We forecast a net loss of up to CHF7 billion in 2022, compared to CHF5.9 billion for the first nine months of the year, of which CHF3.7 billion related to a deferred tax asset impairment linked to the restructuring. We assume a loss of CHF1.0 billion-CHF1.5 billion in 2023 and a marginal profit of about CHF0.5 billion in 2024.

A CHF4 billion capital raise partly mitigates our assessment of downside risks. In our view, maintaining a solid capital and liquidity position through the transformation is critical to the bank's wealth management franchise, increasing client confidence and reducing risk of further franchise deterioration. The underwritten capital raise will add about 140 basis points to the reported 12.6% CET1 ratio as at Sept. 30, 2022, and Credit Suisse expects to maintain it above 13% as it executes the transformation plan. This trajectory should maintain our risk-adjusted capital (RAC) ratio comfortably above 10% despite the poor earnings outlook.

Our view of Credit Suisse's creditworthiness has moved closer to peers with a 'bbb' stand-alone credit profile (SACP), including Deutsche Bank and UniCredit. Although we acknowledge the bank's more proactive approach to legacy issues and progress in strengthening its risk management framework, we are cautious about its ability to deliver the lengthy transformation plan at this point in the economic and credit cycle. European investment bank peers were fortunate in implementing similarly complex plans over the past decade when investors actively sought higher-yielding assets. Positively for Credit Suisse, the bank's business model remains based on a solid market position in its resilient home market of Switzerland, and it remains a global leader in wealth management. These attributes offset some of the volatility and weaknesses we see in other business lines. In our view, the capital raise also provides a buffer against adverse financial developments at the 'bbb' group SACP level.

Outlook

The stable outlooks reflect our expectation that Credit Suisse will maintain robust capital, funding, and liquidity positions to mitigate the risks inherent in the implementation of the new strategy. We expect the bank will steadily execute its transformation plan, delivering on the targets that are fully within its control (such as cost cutting) and applying strong risk management and governance to the investment bank downsizing.

Downside scenario

We could lower the ratings on Credit Suisse Group AG and its operating subsidiaries over the next 12-24 months if:

- The bank fails to stabilize and rebuild confidence in its core businesses and its reshaped franchise is materially weaker than we currently anticipate. We will assess flows in assets under management and deposits relative to peers, liquidity buffers, and the maintenance of strong risk management and governance controls to mitigate further reputational damage;
- Our RAC ratio falls materially closer to the 10% threshold, potentially triggered by higher-than-expected losses during the early phase of restructuring or poor execution of the plan if the cost-cutting program and investment bank restructuring fail to achieve their early milestones.

Upside scenario

An upgrade is a remote scenario over the next 12-24 months but could occur if we saw swift, sustainable progress in the restructuring and a materially more stable franchise with resilient earnings and a better risk-return profile. This would also involve the group sustaining strong capital, ample liquidity buffers, and disciplined governance and risk management.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-4

Governance factors are a negative consideration in our credit rating analysis of Credit Suisse. The group's size, complexity, and large operations in investment banking and wealth-management services make good management of governance factors crucial. Structural governance risk remains an issue in large, complex organizations, and could cause reputational damage. Risk events in 2020-2021, ongoing frequent changes in Credit Suisse's top management, and repeated strategic changes and costly rounds of restructuring, make the group a negative outlier in terms of governance.

Ratings Score Snapshot

Ratings Score Snapshot -- Credit Suisse AG

Credit Suisse AG (lead bank)

	To	From
Issuer Credit Rating	A-/Stable/A-2	A/Negative/A-1
Stand-alone credit profile	bbb	bbb+
Anchor	a-	a-
Business position	Moderate	Adequate
Capital and earnings	Strong	Strong
Risk position	Moderate	Moderate
Funding	Adequate	Adequate
Liquidity	Adequate	Adequate
Comparable ratings analysis	-1	-1
Support	2	2
Additional loss-absorbing capacity support	2	2
Credit Suisse Group AG (holding company)		
	To	**From**
Issuer Credit Rating	BBB-/Stable/--	BBB/Negative/--

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Suisse AG Affirmed At 'A/A-1' Amid Weaker Economic Forecasts And Pending Strategic Review; Outlook Remains Neg, Oct. 6, 2022
- Credit Suisse Outlook Revised To Negative On Leadership Changes, Strategic Review, Market Headwinds; Ratings Affirmed, Aug. 1, 2022
- Credit Suisse Group AG and Credit Suisse AG, June 23, 2022
- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022
- Credit Suisse AG Downgraded To 'A' As Management Reshapes Risk And Return Profile; Outlook Stable, May 16 2022
- European G-SIBs Monitor Q2 2022, May 12, 2022
- After A Big Year, Banks' Capital Markets Revenue Will Likely Fall In 2022, April 12, 2022
- Credit Suisse's Supply Chain Funds Collect Further Cash But Valuation Remains Uncertain, April 13, 2021
- Outsized Hedge Fund Exposure Pushes Credit Suisse To A First-Quarter Loss, April 6, 2021
- Credit Suisse Outlook Revised To Negative On Concerns About The Group's Risk Management, March 30, 2021

Ratings List

Downgraded

	To	From
Credit Suisse AG		
Credit Suisse Securities (USA) LLC		
Credit Suisse Securities (Europe) Ltd.		
Credit Suisse International		
Credit Suisse Bank (Europe) S.A.		
Credit Suisse AG (New York Branch)		
Credit Suisse AG (Cayman Islands Branch)		
Credit Suisse (USA) Inc.		
Credit Suisse (Schweiz) AG		
Credit Suisse (Deutschland) AG		
Issuer Credit Rating	A-/Stable/A-2	A/Negative/A-1
Credit Suisse Group AG		
Issuer Credit Rating	BBB-/Stable/NR	BBB/Negative/NR
Credit Suisse AG		
Credit Suisse Securities (Europe) Ltd.		
Credit Suisse International		
Credit Suisse Bank (Europe) S.A.		
Credit Suisse AG (New York Branch)		
Credit Suisse AG (Cayman Islands Branch)		
Credit Suisse (Schweiz) AG		
Credit Suisse (Deutschland) AG		
Resolution Counterparty Rating	A/--/A-1	A+/--/A-1
Credit Suisse Securities (USA) LLC		
Resolution Counterparty Rating	A-/--/A-2	A/--/A-1
Credit Suisse AG		
Senior Unsecured	A-	A
Subordinated	BB+	BBB-
Credit Suisse (Singapore Branch)		
Senior Unsecured	A-	A
Credit Suisse (USA) Inc.		
Senior Unsecured	A-	A
Credit Suisse AG (Guernsey Branch)		
Senior Unsecured	A-	A

Downgraded

	To	From
Credit Suisse AG (London Branch)		
Senior Unsecured	A-	A
Senior Unsecured	A-p	Ap
Subordinated	BB+	BBB-
Short-Term Debt	A-2	A-1
Credit Suisse AG (New York Branch)		
Senior Unsecured	A-	A
Commercial Paper	A-2	A-1
Credit Suisse AG (Sydney Branch)		
Senior Unsecured	A-	A
Credit Suisse Group AG		
Senior Unsecured	BBB-	BBB
Junior Subordinated	B	B+
Junior Subordinated	B+	BB-
Credit Suisse Group Funding (Guernsey) Ltd.		
Senior Unsecured	BBB-	BBB
Credit Suisse International		
Senior Unsecured	A-	A

NR--Not rated.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914