

RATING ACTION COMMENTARY

Fitch Places Credit Suisse Group and Subsidiaries on Rating Watch Evolving on Merger

Tue 21 Mar, 2023 - 9:53 AM ET

Fitch Ratings - London/Paris - 21 Mar 2023: Fitch Ratings has placed Credit Suisse Group AG's (Credit Suisse) 'BBB' Long-Term Issuer Default Rating (IDR) and the IDRs of its subsidiaries on Rating Watch Evolving (RWE). A full list of rating actions is below.

Credit Suisse's additional Tier 1 (AT1) debt ratings have been downgraded to 'C' from 'BB-', following the decision by the Swiss regulator that the nominal value of these instruments should be written down to zero.

KEY RATING DRIVERS

The RWE reflects the heightened likelihood that the ratings will be upgraded if the bank's merger with UBS Group AG proceeds as planned, because the resulting business combination will likely result in improvements to Credit Suisse's franchise and business model, risk management and funding and liquidity profiles. The transaction is expected by UBS to close in 2Q23. The RWE also signals the risk of a downgrade should the transaction fail.

Liquidity Support: The IDRs of Credit Suisse and its subsidiary, Credit Suisse AG (CSAG), are above their respective Viability Ratings (VRs) to reflect the group's access to extraordinary central bank liquidity support until and following the UBS transaction, when liquidity support from UBS will also become available. This means the default risk for senior creditors is lower than the risk reflected in the VRs. The Swiss National Bank has made CHF250 billion in liquidity lines available, of which CHF200 billion does not require the bank to post collateral.

Higher Rating at Operating Company: The Long-Term IDR of CSAG, the group's main operating company, is one notch above the group's IDR to reflect the additional protection offered to its external senior creditors by existing buffers of subordinated debt issued by the holding company.

Acquisition to Improve Business Profile: Credit Suisse and CSAG's 'b' VRs are below the 'bb+' implied VRs, as the group's business profile, which Fitch believes has weakened substantially, has a strong impact on the VRs. The RWE reflects Fitch's view that the planned acquisition by UBS should strengthen the group's business profile, and the risk of a further weakening if the transaction does not go ahead. The VRs were downgraded to 'f' before being upgraded to 'b' to reflect Fitch's view that the extraordinary support provided to Credit Suisse was required to restore its viability.

Strengthened Capitalisation: Fitch estimates that the write-down of AT1 instruments will add about 580bp to Credit Suisse's 14.1% end-2022 common equity Tier 1 ratio. The increased capital provides a buffer during a period in which Fitch expects performance to remain extremely weak, as improvement is unlikely until its integration with UBS.

No Long-Term Government Support: The Government Support Ratings of Credit Suisse and CSAG reflect our view that full capital support for all senior creditors cannot be assumed in the long term after the group received extraordinary support in the form of central bank liquidity.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The IDRs and VRs are likely to be downgraded if the acquisition by UBS does not proceed. The ratings would also come under pressure if liquidity deteriorates, which we do not expect, given the group's access to central bank funding, or if there is evidence of reduced fungibility of intra-group liquidity.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The acquisition by UBS will result in an upgrade once ordinary and extraordinary support from UBS is in place. Fitch is likely to assign group VRs to the operating companies of Credit Suisse and UBS when the groups' entities become increasingly integrated.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior unsecured debt is rated in line with the respective issuing entities' IDR. Senior unsecured debt issued by Credit Suisse Group Funding (Guernsey) Limited and guaranteed by Credit Suisse is rated in line with the guarantor's IDR.

CSAG's Derivative Counterparty Rating (DCR) is at the same level as its Long-Term IDR, because derivative counterparties in Switzerland have no definitive preferential status over other senior obligations in a resolution.

CSAG's subordinated Tier 2 debt is rated three notches below its Long-Term IDR, which Fitch uses as the anchor rating, to reflect poor recovery prospects in case of non-performance. This is in line with Fitch's baseline notching for this type of debt.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Senior debt and deposit ratings and DCRs (where assigned) would be downgraded if their respective issuing entities' IDRs were downgraded.

Tier 2 debt would be downgraded if CSAG's Long-Term IDR was downgraded or if its non-performance risk increases.

DCRs, senior debt and deposit ratings (where assigned) would be upgraded if their respective issuing entities' IDRs were upgraded.

Tier 2 debt would be likely to be upgraded if CSAG's Long-Term IDR was upgraded.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

IDR Above VR: Credit Suisse (Schweiz) AG's (CS Schweiz) Long-Term IDR is above its VR to reflect access to extraordinary central bank liquidity support. The Long-Term IDR also reflects significant buffers of junior and internal bail-in debt that offer protection to senior creditors in case of the bank's failure. The DCR is at the same level as the Long-Term IDR, because derivative counterparties in Switzerland have no definitive preferential status over

other senior obligations in a resolution. CS Schweiz's Short-Term IDR is the higher of the two ratings that map to its Long-Term IDR.

Challenges to Franchise: CS Schweiz's 'bb' VR is below its 'bbb' implied VR, as the bank's business profile, which Fitch sees as linked to that of its parent, has a strong impact on the VR. The RWE reflects Fitch's view that the planned acquisition by UBS should strengthen the business profile, and the risk of a further weakening if the transaction does not go ahead. The VR was downgraded to 'f' before being upgraded to 'bb' to reflect Fitch's view that the extraordinary support provided to the group was required to restore its viability.

Strong Support from Parent: CS Schweiz's Shareholder Support Rating (SSR) is equalised with CSAG's Long-Term IDR. This reflects our view of support from the parent based on the entity being an integral part of CSAG.

Other Subsidiaries: Credit Suisse International, based in the UK, Credit Suisse (Deutschland) AG, based in Germany, and Credit Suisse Bank (Europe) S.A., based in Spain, are wholly-owned subsidiaries of CSAG. Credit Suisse (USA), Inc. is a US holding company directly held by Credit Suisse Holdings (USA), Inc., the group's US intermediate holding company, which is in turn owned by CSAG.

Their SSRs and IDRs are equalised with CSAG's IDRs and reflect our view that the entities are extremely likely to be supported by the parent in case of need. We view these entities as integral to the group's business and a failure of these subsidiaries would hamper CSAG's ability to operate.

New York Branch: Credit Suisse AG New York branch's (CSAG NY) IDRs are at the same level as those of CSAG, because the branch is part of the same legal entity and in our view, there are no country risk restrictions. The alignment of the IDRs reflects our view that senior creditors of the branch would be treated identically to senior creditors of CSAG.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

CS Schweiz's ratings would likely be downgraded if the acquisition by UBS does not proceed, as this would put further pressure on its franchise.

The Long-Term IDRs and SSRs of the other rated subsidiaries and of CSAG NY would be downgraded if CSAG's Long-Term IDR was downgraded. They could also be downgraded if we no longer believe that senior creditors would benefit from resolution buffers after a

failure of the group or if their role in the group becomes less important, which we do not expect.

CS Schweiz's ratings would be upgraded once ordinary and extraordinary support from UBS is in place, and Fitch would assign group VRs to Credit Suisse's and UBS's operating companies when the group's entities become increasingly integrated.

The Long-Term IDRs and SSRs of the other rated subsidiaries and of CSAG NY would be upgraded if CSAG's Long-Term IDR was upgraded.

VR ADJUSTMENTS

The 'b' VRs of Credit Suisse and CSAG are below the 'bb+' implied VRs due to the following adjustment reason: business profile (negative).

The 'bb' VR of CS Schweiz is below its 'bbb' implied VR due to the following adjustment reason: business profile (negative).

The 'b' business profile scores of Credit Suisse and CSAG are below the 'a' implied scores due to the following reason: strategy and execution (negative).

The 'bb' business profile score of CS Schweiz is below its 'a' implied score due to the following reason: group benefits and risks (negative).

The 'a' asset quality score of CS Schweiz is below its 'aa' implied score due to the following reason: non-loan exposures (negative).

The 'b' earnings and profitability score of Credit Suisse and CSAG are below the 'bb' implied scores due to the following reason: historical & future metrics (negative).

The 'bbb+' capitalisation and leverage score of Credit Suisse, CSAG and CS Schweiz is below the 'a' implied score due to the following reason: internal capital generation and growth (negative)

The 'bbb-' funding and liquidity score of Credit Suisse, CSAG and CS Schweiz is below the 'a' implied score due to the following reason: liquidity access and ordinary support (negative).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

Sources of Information

Fitch has determined that a criteria variation is applicable, because the Bank Rating Criteria does not explicitly contemplate assigning bank IDRs more than one notch above a bank's VR unless the VR is at very low levels. However, Fitch believes Credit Suisse will have access to extraordinary central bank liquidity support until and following the UBS transaction, when liquidity support from UBS will also become available. This means the default risk for Credit Suisse's senior creditors is lower than the risk captured in the VR. This results in the group's Long-Term IDRs being assigned above the VRs.

In accordance with Fitch's policies, the issuer appealed and provided additional information to Fitch that resulted in a rating action that is different than the original rating committee outcome.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Credit Suisse and its subsidiaries have ESG Relevance Scores of '4' for governance structure and for management strategy due to the group's governance issues and challenges in implementing its strategy, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the

entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Credit Suisse AG	LT IDR	BBB+	Rating Watch On	BBB+ Rating Outlook Negative
	ST IDR	F2	Rating Watch On	F2
	Viability	f	Downgrade	bbb
	Viability	b	Upgrade	f
	DCR	BBB+(dcr)	Rating Watch On	BBB+(dcr)
	Government Support	ns	Affirmed	ns
	subordinated	LT	BB+	Rating Watch On
senior unsecured	LT	BBB+	Rating Watch On	BBB+
senior unsecured	ST	F2	Rating Watch On	F2
Credit Suisse International	LT IDR	BBB+	Rating Watch On	BBB+ Rating Outlook Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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Credit Suisse (USA), Inc.	UK Issued, EU Endorsed
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Credit Suisse Group AG	UK Issued, EU Endorsed
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