

Research Update:

Credit Suisse AG Affirmed At 'A/A-1' Amid Weaker Economic Forecasts And Pending Strategic Review; Outlook Remains Neg

October 6, 2022

Overview

- We see increasing risks to Credit Suisse's operating turnaround, given that the fast-deteriorating economic environment and recent market turbulence may complicate the execution of management's restructuring plans, which the bank plans to announce on Oct. 27.
- At the same time, the group's commitment to strong capital remains a key support to the ratings, providing it some buffer for deteriorating financial prospects and to implement its updated strategy and expected business reorganization.
- We affirmed our 'A/A-1' ratings on Credit Suisse AG and other core operating subsidiaries, and our 'BBB' ratings on Credit Suisse Group AG.
- The negative outlooks on the group members mainly reflect risks to the stability of the bank's franchise, amid continued uncertainties around its soon-to-be announced revised strategy and targeted operating model.

Rating Action

On Oct. 6, 2022, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings on Credit Suisse AG, the principal operating bank of the Credit Suisse group, and the group's other core subsidiaries.

We also affirmed our 'BBB' long-term issuer credit rating on Credit Suisse Group AG, the group's nonoperating holding company.

The outlooks on all the group members remain negative.

Additionally, we affirmed our 'A+/A-1+' long- and short-term resolution counterparty ratings (RCRs) on Credit Suisse AG and its rated subsidiaries in Switzerland, the U.K., Spain, and Germany, as well as our 'A/A-1' long- and short-term RCRs on Credit Suisse Securities (USA) LLC.

Finally, we affirmed our issue ratings on all senior unsecured, subordinated, and hybrid capital

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instruments issued by rated group entities.

Rationale

We believe deteriorating operating conditions have increased headwinds for the implementation of Credit Suisse's revised strategy, which has yet to be announced. The rapid deterioration in the global economic environment, accompanied by global capital market turbulence, have stepped up pressure on Credit Suisse while the bank is in the process of defining its strategic plan for the next few years. We believe that the economic uncertainties and market volatility could make the upcoming restructuring of the group's loss-making operations more challenging than previously expected, with the risk of delaying a recovery in client and investor confidence. Being materially exposed to client and market sentiment, with a direct impact on funding costs, we expect that Credit Suisse's position will remain under pressure over the next few months, in particular until the details of its strategic review become available and thoroughly assessed by capital market participants. We also think that until legacy issues are resolved, they will continue to cloud visibility around the group's financial forecasts and may remain a drag on the group's franchise.

The group's gap to the peers with regard to its risk-return profile will likely become bigger and longer, as we previously expected. Although Credit Suisse stands to benefit from rising net interest margins, we expect that restructuring costs and increased funding costs, as well as a reducing revenue base as the group seeks to derisk its business position, may limit the potential for profitability improvement over the next two years. The group's business transformation will therefore come with significant near-term challenges that new management will have to rapidly overcome to position the bank toward a more stable and reasonably successful operating model (see "Credit Suisse Outlook Revised To Negative On Leadership Changes, Strategic Review, Market Headwinds; Ratings Affirmed," published Aug. 1, 2022, on RatingsDirect).

The bank's commitment to strong capitalization continues to support the rating, providing some operating buffers. We view positively that the group continues to have robust capitalization, demonstrated by its reported common equity tier-1 ratio of 13.5% at June 30, 2022. We expect that our projected risk-adjusted capital (RAC) ratio will remain strong, despite the deteriorated profitability prospects and expected restructuring costs likely to be announced later this year. We also acknowledge management's commitment to its cost-efficiency program, targeting an absolute cost base of Swiss franc (CHF)15.5 billion in the medium term, which is supported by broader cost-efficiency efforts and its digital transformation plan. We forecast the bank's S&P Global Ratings-adjusted RAC ratio will remain at 13%-14%, providing a sizable buffer and remaining stronger than that of most peers. We also consider that Credit Suisse's liquidity remains solid enough to provide adequate funding through the initial steps of its transformation. We also acknowledge the group's proactive approach to legacy issues and progress made strengthening the risk management framework.

Outlook

The negative outlooks reflect the risk that the group's planned business repositioning may fail to quickly deliver expected returns in terms of operating performance and the consolidation of its business franchise. We also note that the continued deterioration of global economic conditions and uncertain investor confidence could add to the current pressure on the group's credit

standing, if management is unable to quickly demonstrate rapid and material progress against its operational targets.

The bank will announce its strategic review by Oct. 27. We will update our expectations for the ratings based on the details of the strategic plan provided at that time, taking into account execution risks, the expected impact on the group's risk profile, along with our revised forecasts on Credit Suisse's capital position and profitability.

Downside scenario

We could lower the ratings on Credit Suisse Group AG as well as Credit Suisse AG and its operating subsidiaries if:

- Management fails to stabilize the bank's franchise and earnings, for example, due to a weakening market position in its core wealth management business;
- We thought that the revised strategy is unlikely to substantially and sustainably reduce the group's risk-return gap to peers operating in similar industry risk environments, which would indicate a relative weakness of the business model; or
- Past failures in risk management and governance further damage the group's reputation and franchise, or if new litigation risks emerge that materially dent the group's performance or capital.

Upside scenario

We could revise the outlooks on Credit Suisse Group AG as well as Credit Suisse AG and its operating subsidiaries to stable if we believe that new management's strategy is likely to deliver sufficient improvements in the group's risk position and profitability. That would, however, occur only after we have evidence that management's actions are placing the bank on a firm path to franchise stability and improvement in its risk-return profile to levels closer to peers. This would also reflect a less volatile revenue base and improving efficiency, while sustaining strong capital and ample liquidity buffers. In addition, stable outlooks would hinge on a reduction in the risks linked to past financial and reputational issues.

Environmental, Social, And Governance

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

We see governance factors as 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 and frequent changes in Credit Suisse's top management make the group a negative outlier in terms of governance.

Ratings Score Snapshot

Issuer Credit Rating	A/Negative/A-1
SACP	bbb+
Anchor	a-
Business position	Adequate
Capital and earnings	Strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	-1
Support	2
ALAC support	2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

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 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

Ratings Affirmed

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/Negative/A-1

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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

Credit Suisse Group AG

Issuer Credit Rating BBB/Negative/NR

Credit Suisse Securities (USA) LLC

Resolution Counterparty Rating A/-/-A-1

Credit Suisse AG

Senior Unsecured A

Subordinated BBB-

Credit Suisse (Singapore Branch)

Senior Unsecured A

Credit Suisse (USA) Inc.

Senior Unsecured A

Credit Suisse AG (Guernsey Branch)

Senior Unsecured A

Credit Suisse AG (London Branch)

Senior Unsecured A

Senior Unsecured Ap

Subordinated BBB-

Short-Term Debt A-1

Credit Suisse AG (New York Branch)

Senior Unsecured A

Commercial Paper A-1

Credit Suisse AG (Sydney Branch)

Senior Unsecured A

Credit Suisse Group AG

Senior Unsecured BBB

Junior Subordinated B+

Junior Subordinated BB-

Credit Suisse Group Funding (Guernsey) Ltd.

Senior Unsecured BBB

Ratings Affirmed

Credit Suisse International

Senior Unsecured	A
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