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Fitch Upgrades Credit Suisse (Schweiz) to 'A+' on UBS Integration Plans

Fitch Ratings - London - 22 Sep 2023: Fitch Ratings has upgraded Credit Suisse (Schweiz) AG's (CS Schweiz) Long-Term Issuer Default Rating (IDR) to 'A+' from 'A' and Shareholder Support Rating (SSR) to 'a+' from 'a'. The Viability Rating (VR) has been upgraded to 'bbb' from 'bb' and removed from Rating Watch Positive. The Outlook on the Long-Term IDR is Stable.

A full list of rating actions is below.

The upgrade of CS Schweiz's Long-Term IDR and SSR reflects the announcement by UBS Group AG (A/Stable/F1), CS Schweiz's ultimate parent, that the group plans to merge CS Schweiz, the domestic operations of Credit Suisse AG (A+/Stable/F1), into UBS Switzerland AG (A+/Stable/F1), UBS's core entity that houses the group's Swiss domestic operations, in 2024 and fully integrate both domestic businesses in the coming years, with client migration expected to be completed in 2025.

The upgrade of CS Schweiz's VR reflects Fitch's expectation that UBS will continue to restore CS Schweiz's business and risk profiles, earnings generation and deposit franchise in the short term. The upgrade also reflects Fitch's view that the planned merger with UBS Switzerland will eventually result in a combined entity with a significantly more robust standalone profile, as indicated by UBS Switzerland's VR of 'a'.

Key Rating Drivers

Planned Integration Underpins Intragroup Support: We align CS Schweiz's SSR and Long-Term IDR with the Long-Term IDR of UBS AG (A+/Stable/F1), the group's main operating company, as we view support from the group as extremely likely, if needed, given the group's decision to merge and integrate CS Schweiz into UBS Switzerland. We view UBS AG as the likely ultimate source of support, because the group is in the process of integrating Credit Suisse AG and, as a result, the group's operating and financial activities are being increasingly concentrated at UBS AG. Credit Suisse AG is expected to merge into UBS AG in 2024.

We align CS Schweiz's Long-Term IDR and SSR with UBS AG's Long-Term IDR instead of its VR of 'a' because we believe CS Schweiz's senior creditors would benefit from additional protection from the group's large buffers of junior and holding company debt in case of UBS's failure.

The Short-Term IDR of 'F1' is aligned with that of UBS AG to reflect our view that short-term intragroup support is highly likely, if needed.

Weakened Franchise Constrains VR: CS Schweiz operates Credit Suisse AG's Swiss retail- and

commercial-banking and domestic wealth management businesses. In Fitch's view, its standalone business profile is stabilising but is still affected by the erosion of its funding base and revenue generation capacity in 4Q22 and 1Q23. This deterioration resulted from the Credit Suisse group's franchise erosion and financial distress, which eventually triggered its failure and acquisition by UBS.

Integration to Stabilise Business Model: CS Schweiz's VR reflects our view that the completion of Credit Suisse's acquisition by UBS in June 2023 has stopped the erosion of CS Schweiz's client, revenue and deposit base, and that the group's plans to merge it into UBS Switzerland are supporting the restoration of the bank's credit profile. We believe that CS Schweiz and UBS Switzerland's partially overlapping client bases could give rise to manageable client attrition. This is balanced by the strong market position of the combined entity, which will be the largest domestic universal bank operating country-wide in Switzerland, although the individual cantonal banks generally have leading positions in their respective regions and are collectively larger than the enlarged UBS Switzerland.

Risk Profile Recovering: Our assessment of CS Schweiz's risk profile remains constrained by the bank's limited ability to insulate itself from the crisis of confidence that culminated at Credit Suisse in late 2022 and early 2023. This is despite CS Schweiz's record of low-risk business model and moderate risk appetite as well as the legal and organisational structure of the Credit Suisse group that supported a clear delimitation of CS Schweiz's business model and operations from riskier activities of the group, in particular its investment banking activities.

In line with our view of CS Schweiz's business model, we expect the vulnerabilities of its risk profile to recede over the next quarters as UBS initiates the preparation of the integration into UBS Switzerland.

Asset Quality a Rating Strength: CS Schweiz's impaired loan ratio of 0.44% at end-2022 is reflective of its record of strong asset quality underpinned by its focus on lower-risk Swiss domestic clients with a significant share of mortgage lending. We believe its asset quality remained unaffected by Credit Suisse's crisis through 1H23, and the robust prospects for the Swiss economy over the coming quarters should continue to support CS Schweiz's asset quality until the merger into UBS Switzerland, whose asset quality is similarly strong.

Depressed Earnings, but Consistently Profitable: CS Schweiz has historically generated stable profits. It was the only division of Credit Suisse that remained consistently profitable through the crisis, despite pressure on profitability driven by outflows of deposits and assets under management resulting from weakened client confidence and until end-August 2023, the uncertainty surrounding UBS's strategic intentions for CS Schweiz.

Longer-term Earnings Tailwind Likely: A significant proportion of the extensive negative fair value adjustments booked by UBS on Credit Suisse assets when it completed the acquisition at end-1H23 relates to low-risk, long-term loans (notably mortgage loans) that CS Schweiz holds to maturity, and which appear likely to generate significant positive revaluation gains as they pull to par over the next years. We believe these gains could mitigate the costs of CS Schweiz's restructuring and integration into UBS Switzerland to a material extent.

Robust Regulatory Capitalisation: Due to its ability to remain profitable through the Credit Suisse

crisis and its stable asset base with a large proportion of Swiss mortgage loans generating low risk-weighted assets volatility, CS Schweiz maintained robust and resilient common equity Tier 1 and Basel 3 leverage ratios of 14.7% and 6.3%, respectively, at end-1H23, which represent good buffers over the minimum regulatory requirements. We expect the capital ratios to remain robust until the completion of the merger into UBS Switzerland, which operated with lower CET1 and Basel 3 leverage ratios of 11.5% and 5.4% at en-1H23..

Severely Weakened Deposit Base: Despite the full repayment and termination of the extraordinary facilities provided by the Swiss central bank from March 2023 and the stabilisation since 2Q23 of CS Schweiz's client deposit base, its customer deposit base remains materially weaker than historically. Until end-1Q23, CS Schweiz's deposits incurred total net outflows equivalent to one-third of the volume outstanding at end-1H22, showing the higher flight-risk of its deposit base. We estimate the bank's loan-to-deposit ratio to be close to 150% at end-1H23, up from an historical average of less than 100% until early 2022.

Integration Supports Deposit Stabilisation: We expect the planned integration into UBS Switzerland to support client confidence and underpin further deposit stabilisation until the merger. However, our assessment of CS Schweiz's funding and liquidity profile also considers the bank's still high reliance on the Swiss central bank's ordinary liquidity facility, with CHF38 billion drawn at end-August 2023.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

CS Schweiz's IDRs and SSR are primarily sensitive to changes in UBS AG's IDRs.

In addition, we could downgrade CS Schweiz's IDRs and SSR if the Swiss authorities decided to impose onerous constraints on CS Schweiz's integration into UBS Switzerland that could make UBS reconsider the planned integration or CS Schweiz's future as part of UBS group. We view this scenario as highly unlikely as we believe UBS has secured the necessary backing from the relevant authorities before announcing its integration plans.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We expect to withdraw CS Schweiz's VR once the merger with UBS Switzerland is completed. In addition, we could upgrade CS Schweiz's VR ahead of the merger if UBS makes significant progress in restoring and strengthening CS Schweiz's business model, risk profile, profitability and funding profile over the next quarters.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

CS Schweiz's Derivative Counterparty Rating (DCR) is aligned with its Long-Term IDR because derivative counterparties in Switzerland have no preferential status over other senior obligations in a resolution.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The DCR is primarily sensitive to changes to the Long-Term IDR.

VR ADJUSTMENTS

CS Schweiz's business profile score has been assigned below the implied score due to the following adjustment reason: historical & future developments (negative).

CS Schweiz's asset quality score has been assigned below the implied scores due to the following adjustment reason: non-loan exposures (negative).

CS Schweiz's capitalisation & leverage score has been assigned below the implied score due to the following adjustment reason: internal capital generation and growth (negative).

CS Schweiz's funding & liquidity score has been assigned below the implied score due to the following adjustment reason: deposit structure (negative).

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.

Public Ratings with Credit Linkage to other ratings

CS Schweiz's IDRs and SSR are linked to UBS AG's IDRs.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Credit Suisse (Schweiz) AG	LT IDR	A+ 	Upgrade	A 
	ST IDR	F1	Affirmed	F1
	Viability	bbb	Upgrade	bb 
	DCR	A+(dcr)	Upgrade	A(dcr)
	Shareholder Support	a+	Upgrade	a

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

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