Research Update:

Credit Suisse AG 'A+' Long-Term Rating Affirmed Amid Uncertainties Following Recent Supply Chain Finance Funds Closure

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Overview

- In early March 2021, Credit Suisse Group announced it was closing four supply chain finance funds, reflecting valuation uncertainties owing to challenges faced by the Greensill group.
- In our base case, we do not expect material financial or sustainable reputational damage emerging from the fund closures or business relationship to the Greensill Group and believe risks are adequately reflected in our current ratings.
- We have affirmed our long-term issuer credit ratings on the lead operating bank, Credit Suisse AG, and the group's other core operating subsidiaries at 'A+', and our 'BBB+' long-term issuer credit ratings on Credit Suisse Group AG, the group's nonoperating holding company.
- The stable outlook on all rated entities in the group reflects our view that there will be no material impact on the group resulting from the fund closures or Greensill's collapse and related investigations. However, we could lower the ratings if regulatory investigation into Credit Suisse's involvement with Greensill reveals fundamental control or governance failures.

Rating Action

On March 19, 2021, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on Switzerland-based Credit Suisse AG, the principal operating bank of the Credit Suisse group (Credit Suisse), and the group's other core subsidiaries.

At the same time, we affirmed our 'A-1' short-term issuer credit ratings on these entities. We also affirmed our 'BBB+' long-term issuer credit rating on Credit Suisse Group AG, the group's nonoperating holding company. The outlook on all entities remains stable.

We also affirmed our 'AA-/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. We affirmed 'A+/A-1' long and short-term RCR on Credit Suisse Securities (USA) LLC.

Additionally, we affirmed our issue ratings on all Credit Suisse Group AG's senior unsecured debt, and subordinated and hybrid capital instruments issued by group entities.

Rationale

While there are downside risks, we expect financial damage to Credit Suisse will remain contained. In early March 2021, Credit Suisse Group announced it was closing four supply chain finance funds with a total amount of $10 billion and suspending four additional funds with assets of $1.2 billion partially invested in supply chain finance funds. This reflected valuation uncertainties because of challenges faced by the Greensill group. These funds do not constitute a direct risk for the group. The funds were not guaranteed by the Credit Suisse Group, and we currently would not expect the group to compensate investors for potential losses. Beyond the off-balance-sheet exposure to frozen funds, Credit Suisse has an outstanding direct loan to Greensill, which is small in terms of size in the context of the group's profitability (remaining $90 million collateralized loan).

In our base case, we do not expect material reputational damage emerging for Credit Suisse. We understand that material allegations are brought forward against Credit Suisse regarding its business relation with the Greensill group. Based on the latest information, we think risks are adequately reflected in our current ratings. As a result of its investment banking and asset management activities, Credit Suisse's risk profile remains complex and entails market, litigation, and other nonfinancial risks, which we reflect in our moderate assessment for the group's risk position, and in our assessment of Credit Suisse's business position regarding strategic risk.

In our view, Credit Suisse is appropriately capitalized for the risks it faces. It shows strong capital ratios, underpinned by our projection of its risk-adjusted capital (RAC) ratio at 12%-13% by 2022, which is higher than most peers. In our RAC calculation, we consider risks stemming from Credit Suisse's off-balance-sheet liabilities, such as funds under management.

Sound efficiency and recent de-risking supports our projection of the group's relative resilience against economic headwinds. We think the group's focus on Switzerland and wealth management clients significantly mitigates the risk to revenue and from certain pockets of credit exposure amid the COVID-19 pandemic, which has led to a weakened economic and operating environment for some of Credit Suisse's primary markets.

While material litigations and impairment charges represent a strong setback to 2020 annual profitability, they do not affect the group's overall creditworthiness. Provisions for credit losses of Swiss franc (CHF) 1.1 billion and litigations and impairment charges of CHF1.2 billion in 2020 to close legacy cases burdened the bottom line in 2020. However, Credit Suisse reported decent operating revenues in 2020. While interest income declined, improved operating noninterest revenue, both fees and trading, mitigated this development.

We project return on tangible equity of 5%-7% in 2021-2022, depending on the pace of the economic recovery. Through a trading update in the middle of March, Credit Suisse indicated a strong improvement in profitability in the first months of 2021, driven by increased client activity in both its investment bank and wealth management businesses. However, as with peers, we expect risk costs will remain elevated in the medium term, relative to the historic trend, and affect bottom line results beyond 2021.

Outlook

The stable outlook relates to the next two years and reflects our view that Credit Suisse's closure of funds and business relationship with the Greensill group will not impair the group's financial strength, sustainably damage its reputation, or reveal material weaknesses in risk management and governance. Our stable outlook also reflects our expectations of low litigation costs.

We think the group's strong franchise in global wealth management and domestic corporate and retail banking will continue to support earnings, despite adverse global economic and market conditions.

Downside scenario

We could lower the ratings on Credit Suisse Group AG, Credit Suisse AG, and other operating subsidiaries if material new litigation risks emerge, or if a fundamental management control failure or governance issues were revealed because of the regulatory investigations. A more critical investor's view on Credit Suisse's actions on the funds and business with the Greensill group has the potential to tarnish Credit Suisse's reputation, which might be particularly vulnerable following high-profile governance issues that affected the group in 2020 and culminated with its CEO departing.

We would also lower the rating if litigations costs, credit losses and fair value adjustments for loans materially exceed our current base-case projections, jeopardizing our projection of a RAC ratio comfortably above 10%.

Upside scenario

We consider an upgrade of holding company Credit Suisse Group AG and its operating subsidiaries, including Credit Suisse AG, as unlikely over our 12-24 month outlook, particularly in light of macroeconomic pressures from the COVID-19 pandemic. We consider banking groups with higher group stand-alone credit profiles (SACP) to typically have more diversified and larger franchises than Credit Suisse and longer records of sound profitability across their business lines. The upgrade would hinge on our unchanged view on prudency of Credit Suisse risk management and governance.

Ratings Score Snapshot

Credit Suisse Group AG	
Credit Suisse AG	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Holding Company Issuer Credit Rating	BBB+/Stable
SACP	a-
Anchor	a-
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)

Credit Suisse Group AG	
Credit Suisse AG	
Risk Position	Moderate (-1)
Funding	Average
and Liquidity	Adequate (0)
Support	(+2)
ALAC Support	(2)
GRE Support	(0)
Group Support	(0)
Government Support	(0)
Additional Factors	(0)

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Suisse Has Enough Flexibility To Absorb Its Additional RMBS Provision, Jan. 8, 2021
- Banking Industry Country Risk Assessment: Switzerland, Jan. 6, 2021
- Credit Suisse AG, Dec. 10, 2020

Ratings List

Ratings Affirmed	
Credit Suisse Group AG	
Issuer Credit Rating	BBB+/Stable
Credit Suisse (Deutschland) AG	
Credit Suisse Securities Sociedad de Valores S.A.	
Credit Suisse Securities (USA) LLC	
Credit Suisse Securities (Europe) Ltd.	
Credit Suisse International	
Credit Suisse AG (New York Branch)	
Credit Suisse AG (Cayman Islands Branch)	
Credit Suisse AG	
Credit Suisse (USA) Inc.	
Credit Suisse (Schweiz) AG	
Issuer Credit Rating	A+/Stable/A-1
Credit Suisse (Deutschland) AG	
Credit Suisse Securities Sociedad de Valores S.A.	
Credit Suisse Securities (Europe) Ltd.	
Credit Suisse International	
Credit Suisse AG (New York Branch)	
Credit Suisse AG (Cayman Islands Branch)	
Credit Suisse AG	
Credit Suisse (Schweiz) AG	
Resolution Counterparty Rating	AA-/--/A-1+
Credit Suisse Securities (USA) LLC	
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse Group AG	
Senior Unsecured	BBB+
Junior Subordinated	BB
Junior Subordinated	BB-

Ratings Affirmed	
Credit Suisse (Singapore Branch)	
Senior Unsecured	A+
Credit Suisse (USA) Inc.	
Senior Unsecured	A+
Credit Suisse AG	
Senior Unsecured	A+
Subordinated	BBB
Credit Suisse AG (Guernsey Branch)	
Senior Unsecured	A+
Credit Suisse AG (London Branch)	
Senior Unsecured	A+
Senior Unsecured	A+p
Subordinated	BBB
Credit Suisse AG (New York Branch)	
Senior Unsecured	A+
Commercial Paper	A-1
Credit Suisse AG (Tokyo Branch)	
Commercial Paper	A-1
Credit Suisse Group Funding (Guernsey) Ltd.	
Senior Unsecured	BBB+
Credit Suisse International	
Senior Unsecured	A+

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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.