

01 APR 2021

Fitch Revises Credit Suisse's Outlook to Negative, Affirms IDR at 'A-'

Fitch Ratings - London - 01 Apr 2021: Fitch Ratings has revised Credit Suisse Group's and other group entities' Outlooks to Negative from Stable, reflecting potential negative repercussions from the group's exposure to a failed US hedge fund, which follows a series of other events that could damage the group's financial strength and reputation. Its ratings, including the 'A-' Long-Term Issuer Default Rating (IDR) and 'a-' Viability Rating (VR), were affirmed, although headroom within the VR has narrowed.

The Negative Outlook reflects our view that its ratings could be downgraded if the fallout from its exposure to the failed hedge fund or the supply-chain financing funds exposed to Greensill Capital reveal weaknesses in the bank's risk governance that are not commensurate with its VR. The potential losses, risk-control weaknesses, as well as any corrective measures the bank may take, could put pressure on our assessment of the group's risk appetite, management and strategy, asset quality, profitability and capitalisation. This could ultimately put pressure on its ratings.

Key Rating Drivers

Losses related to Credit Suisse's exposure to the failed hedge fund are not yet known, but the financial repercussions from exiting the related positions pose a risk to the group's earnings and capitalisation.

While losses may be sizeable, they would be incurred against otherwise strong underlying profitability in 1Q21, which will have benefited from strong revenue trends in the investment-bank and wealth-management businesses at the start of the year, as indicated by the bank's 16 March 2021 trading update.

Before the hedge fund incident, the bank had been guiding to a common equity Tier 1 (CET1) ratio of at least 12.5% in 1H21, down from 12.9% at end-2020 but in excess of its medium-term guidance of around 12%. We believe that this should provide sufficient headroom to absorb a sizeable potential loss and risk-weighted assets (RWA) inflation, while still maintaining capitalisation well above regulatory requirements. We may review the group's capitalisation if the loss amount results in material capital depletion, or if we no longer view it as commensurate with its risk appetite.

We view the recent increase in the frequency of events that could damage the group financially and reputationally as a negative reflection on the group's risk appetite and controls, and they could be indicative of governance and controls shortcomings. We have therefore raised the group's ESG relevance score for Governance Structure to '4' from '3', as the group's governance issues are a contributor to the revision of the Outlook to Negative.

Credit Suisse's ratings are lower than most of the global trading and universal bank peers'. This in part reflects the relatively large size of investment-banking operations, its risk appetite and lagging profitability before the pandemic. Balancing these considerations are the group's strong wealth-management franchise and leading universal-banking presence in Switzerland, as well as improved profitability (operating profit of 1.35% of RWAs in 2020). Asset quality, capitalisation, and funding and liquidity are all supportive of the rating.

Unless stated otherwise the key drivers of Credit Suisse Group's other ratings and the ratings of its subsidiaries are as per the last rating action commentary (See "Fitch Revises Credit Suisse Group's Outlook to Stable; Affirms IDRs at 'A-' published on 29 May 2020).

RATING SENSITIVITIES

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

Losses related to the hedge-fund exposure would put pressure on ratings if they reach a magnitude which, together with the RWA effect and other drivers, is expected to lead to an erosion of the CET1 ratio to below 11%, without a clear path to restore it to the longer-term guidance of around 12% within two quarters. A 12.5% CET1 ratio in 1H21 implies a sizeable CHF4.1 billion capital buffer above the 11% rating sensitivity, based on end-2020 RWAs.

We may also downgrade the ratings if it becomes clear that the investment bank, in particular, had been running a higher risk appetite than under our assumption, or if oversight over the affected exposures reflects poorly on risk controls.

Reputational repercussions that would make it harder for Credit Suisse to meet its pre-tax profit growth ambitions, or significant adjustments to the group's management and strategy, could also contribute to rating pressure.

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

The ratings could be affirmed and the Outlook revised to Stable if it becomes clear that the impact on earnings and capital will be limited (loss amount not exceeding one quarter's earnings, and not leading to a material deviation from the longer-term CET1 target) and once we believe that any risk management and governance shortcomings have been remedied, which could take several quarters.

Unless stated otherwise the sensitivities of the ratings of Credit Suisse Group and its subsidiaries are as per the last rating action commentary.

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>]

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

The ratings of Credit Suisse International, Credit Suisse (Deutschland) AG, Credit Suisse Securities Sociedad de Varlores S.A., Credit Suisse (USA) Inc. and Credit Suisse NY branch are directly linked to Credit Suisse AG. The ratings of Credit Suisse Group Funding (Guernsey) Limited are directly linked to Credit Suisse Group AG.

ESG Considerations

The group's ESG relevance score for Governance Structure has been revised to '4' from '3' as the group's governance issues are a contributor to the revision of the Outlook to Negative. This has a negative impact on the credit profile and is relevant to the rating 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

Fitch Ratings Analysts

Ioana Sima

Director

Primary Rating Analyst

+44 20 3530 1736

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Konstantin Yakimovich

Senior Director

Secondary Rating Analyst

+44 20 3530 1789

Olivia Perney



Managing Director
 Committee Chairperson
 +33 1 44 29 91 74







Media Contacts





Louisa Williams



London
 +44 20 3530 2452
 louisa.williams@thefitchgroup.com



Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Credit Suisse AG	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	Support	5	Affirmed	5
	Support Floor	NF	Affirmed	NF
	DCR	A(dcr)	Affirmed	A(dcr)
	• senior unsecured ^{LT}	A	Affirmed	A
	• subordinated	BBB	Affirmed	BBB
	• senior unsecured ^{LT}	A(EXP)	Affirmed	A(EXP)




ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	ST	F1	Affirmed	F1
Credit Suisse International	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Support	1	Affirmed	1
	DCR	A(dcr)	Affirmed	A(dcr)
• senior unsecured	LT	A	Affirmed	A
• senior unsecured	ST	F1	Affirmed	F1
Credit Suisse (USA), Inc.	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Support	1	Affirmed	1
• senior unsecured	LT	A	Affirmed	A
Credit Suisse (Deutschland) AG	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	Support	1	Affirmed	1
• long-term deposits	LT	A	Affirmed	A
• short-term deposits	ST	F1	Affirmed	F1
Credit Suisse Group AG	LT IDR	A- 	Affirmed	A- 
	ST IDR	F2	Affirmed	F2
	Viability	a-	Affirmed	a-
	Support	5	Affirmed	5
	Support Floor	NF	Affirmed	NF
• subordinated		BB+	Affirmed	BB+
• senior unsecured	LT	A-	Affirmed	A-
• senior unsecured	ST	F2	Affirmed	F2
Credit Suisse	LT IDR	A 	Affirmed	A 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
NY				
	ST IDR	F1	Affirmed	F1
• senior unsecured	LT	A	Affirmed	A
• senior unsecured	ST	F1	Affirmed	F1
Credit Suisse Group Funding (Guernsey) Limited				
• senior unsecured	LT	A-	Affirmed	A-
• senior unsecured	ST	F2	Affirmed	F2
Credit Suisse (Schweiz) AG	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Support	1	Affirmed	1
	DCR	A+(dcr)	Affirmed	A+(dcr)

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Credit Suisse Securities, Sociedad de Valores, S.A.	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Support	1	Affirmed	1
	DCR	A(dcr)	Affirmed	A(dcr)

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Credit Suisse (Deutschland) AG

UK Issued, EU Endorsed

Credit Suisse (USA), Inc.

UK Issued, EU Endorsed

Credit Suisse Group AG	UK Issued, EU Endorsed
Credit Suisse Group Funding (Guernsey) Limited	UK Issued, EU Endorsed
Credit Suisse International	UK Issued, EU Endorsed
Credit Suisse NY	UK Issued, EU Endorsed
Credit Suisse Securities, Sociedad de Valores, S.A.	UK Issued, EU Endorsed

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