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Fitch Affirms Credit Suisse Group at 'A-'; Outlook Negative

Fitch Ratings - London - 23 Sep 2021: Fitch Ratings has affirmed Credit Suisse Group AG's (CSG) Long-Term Issuer Default Rating (IDR) at 'A-' with a Negative Outlook, and Viability Rating (VR) at 'a-'.

Fitch has also affirmed CSG's subsidiaries, Credit Suisse AG (CS AG), Credit Suisse International (CSI), Credit Suisse (USA) Inc (CSUSA), Credit Suisse (Deutschland) AG (CSD) and Credit Suisse Bank (Europe) S.A. (CSBE), at Long-Term IDR 'A' and Credit Suisse (Schweiz) AG (CS Schweiz) at Long-Term IDR 'A+'. The Outlooks on these Long-Term IDRs remain Negative. A full list of rating actions is below.

The affirmation reflects the group's improved capitalisation, reduced risk exposures, and Fitch's expectation that the group's wealth-management and domestic-banking businesses should continue to underpin profitability. These factors mitigate what Fitch views as severe shortcomings identified in CSG's risk governance, which the group has started to address in 2Q21.

The Negative Outlook reflects Fitch's view that downside risks to earnings, which have benefited from the strong performance of the investment bank (IB) since 2020, could make it more challenging for the group to strengthen its profitability. An increase in risk appetite to boost profitability or an inability to strengthen risk governance could also result in a rating downgrade.

Key Rating Drivers

CSG and CS AG

IDRs and VRs

CSG's VR is equalised with that of CS AG, reflecting moderate Fitch-calculated common equity double leverage at CSG (117% at end-2020), which we expect to remain below 120%, and our expectation that the holding company's (holdco) liquidity management will remain prudent.

The Long-Term IDR of CS AG is one notch above its VR because of the protection offered to its external senior creditors by buffers of subordinated debt issued to the holdco, which we view as sustainable given resolution requirements for the group. CSG's Long-Term IDR is equalised with its VR.

CSG's and CS AG's VRs reflect the group's strong international wealth-management franchise and leading universal-banking presence in Switzerland, as well as sound capitalisation, asset quality and underlying earnings.

The ratings also reflect what Fitch views as severe weaknesses in risk controls identified in an independent report published in 3Q21, which the group started to address in 2Q21, and its substantial activities in its IB division, which generated strong earnings in 2020 but reported a CHF2.5 billion pre-tax loss in 1H21, following the failure of Archegos.

CSG reduced its risk exposure materially in 2Q21, particularly in IB, where risk-weighted assets (RWA) fell 22% in the quarter and leverage exposure was reduced by 13%. The group has also announced further investments in its risk-management structure and appointed a new Chief Risk Officer. CSG expects to finalise the outcome of a strategic review and a three-year plan by end-2021, which we do not expect to result in an increased risk appetite.

We reflect the risk-governance weaknesses by lowering CSG's risk appetite score to 'bbb+' with a stable outlook from 'a-' with negative outlook. We also believe that a revision in the group's strategy could give rise to execution risks, which we reflect in a negative outlook for our 'a-' score for management and strategy. The governance shortcomings that have resulted in the material losses is reflected in an ESG relevance score of '4' for Governance Structure, which in turn is a contributor to the Negative Outlook on CSG's Long-Term IDR.

Excluding the Archegos-related losses, CSG has shown resilient performance in 2020 and 1H21. Profitability has been helped by a supportive market environment, which resulted in strong earnings in IB. Growth in assets under management should support earnings in the wealth-management businesses in the coming quarters in the absence of a sharp decline in market valuations, but low interest rates continue to put pressure on net interest margins in this segment and in the group's domestic banking operations in the Swiss universal bank division.

We believe that it will be challenging for CSG to achieve pre-tax profit growth as earnings could come under pressure if the reduced risk appetite in investment bank results in a weakened franchise or if the market environment becomes less supportive. This potential pressure is reflected in a negative outlook on our 'a-' assessment for the group's profitability.

CSG strengthened its capitalisation in 2Q21 with the issue of a mandatory convertible bond and by reducing risk-weighted assets (RWAs). Its common equity Tier 1 (CET1) ratio at end-1H21 of 13.7% has comfortable buffers above the group's 13% minimum target, which will remain in place at least until end-2021. As a result of stronger capitalisation and reduced risk appetite, the outlook on the 'a' score for capital and leverage has been revised to stable from negative.

CSG's gross impaired loan ratio deteriorated in 2020 but remained sound at 1.05% at end-1H21, and we expect the quality of CSG's loan book to remain strong as the economy recovers. Our assessment of asset quality includes the bank's sizeable non-loan exposures. Because of a large loss arising from a concentrated counterparty exposure in Archegos, we have lowered our score for asset quality to 'a' from 'a+', which is now on a stable outlook. The bank has reviewed its counterparty exposure, and we expect it to maintain moderate concentration risk.

Funding benefits from a well-established and diversified deposit base in its domestic market and from international wealth-management clients. CSG's business model relies on significant access to confidence-sensitive wholesale funding.

CS AG's and CSG's respectively Short-Term IDRs of 'F1' and 'F2' are the baseline options mapping to their respective Long-Term IDRs of 'A' and 'A-'. In the case of CS AG, this is because the group's funding and liquidity score of 'a' is below the minimum required for the higher Short-Term IDR option under Fitch's criteria. In the case of CSG, this is because the group's liquidity is managed and retained at CS AG level.

SUPPORT RATINGS AND SUPPORT RATING FLOORS

CSG's and CS AG's Support Ratings (SRs) and Support Rating Floors (SRFs) reflect our view that senior creditors of both the holding and the operating bank can no longer rely on receiving full extraordinary support from the sovereign if the group becomes non-viable, largely due to progress made in Swiss legislation and regulation to address the 'too big-to-fail' problem for the two large Swiss banks.

DERIVATIVE COUNTERPARTY RATINGS AND DEBT RATINGS

The Derivative Counterparty Rating (DCR) of CS AG 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.

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

CS AG's subordinated Tier 2 debt is rated two notches below its VR for poor recovery prospects, which is Fitch's baseline notching for this type of debt.

CSG's additional Tier 1 (AT1) debt with fully flexible coupons is rated four notches below the entity's VR. The notching comprises two notches for loss severity, reflecting the notes' deep subordination, and two notches for incremental non-performance risk relative to the VR, due to fully discretionary coupon. omission.

SUBSIDIARIES

CS SCHWEIZ

CS Schweiz, a subsidiary of CS AG, houses the group's domestic retail- and commercial-banking activities and broadly corresponds to the group's Swiss universal bank business division.

The VR of CS Schweiz reflects its standalone risk profile with a low-risk domestic loan book, solid profitability, sound capitalisation and a strong deposit franchise. The VR also factors in its deep integration with CS AG in strategy and risk governance, and the high fungibility of liquidity and capital between the two entities in the normal course of business. These can result in material exposures to CS AG, and CS Schweiz's VR is therefore unlikely to be rated above CS AG's Long-Term IDR. The Negative Outlook on CS Schweiz's Long-Term IDR therefore mirrors that on CS AG's.

CS Schweiz's Long-Term IDR of 'A+' is one notch above the VR because of significant buffers of junior and internal bail-in debt that offer protection to senior creditors of CS Schweiz in case of its failure.

The Short-Term IDR of 'F1' is the baseline option mapping to a Long-Term IDR of 'A+' because the funding and liquidity score of CS Schweiz is insufficient to achieve a higher Short-Term IDR under Fitch's criteria. 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 Support Rating of '1' primarily reflects our view that the entity is an integral part of CS AG, and that its default would constitute significant reputational risk to its parent, increasing CS AG's propensity to provide extraordinary support, if required.

OTHER SUBSIDIARIES

CSI (based in the UK), CSD (based in Germany) and CSBE (based in Spain) are wholly-owned subsidiaries of CS AG. CSUSA is a US holding company directly held by Credit Suisse Holdings (USA), Inc., the group's US intermediate holding company, which is owned by CS AG. Their SRs and Long-Term IDRs, which are equalised with the Long-Term IDR of CS AG, reflect our view that these 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 core to CS AG's strategy, and believe that their default would constitute material reputational damage for the parent. The Outlooks on the Long-Term IDRs mirror that on CS AG.

We use CS AG's Long-Term IDR as the anchor rating because we expect that senior creditors of CSI, CSUSA, CSD and CSBE will benefit from the parent's resolution debt buffers given their high degree of integration with the parent and the group's single point-of-entry resolution strategy. In the case of CSI and CSUSA, this expectation is further underpinned by the regulatory requirement to pre-place sufficient bail-in debt and equity in the subsidiary or in the jurisdiction of the subsidiary.

CSI's and CSBE's DCRs are at the same level as the entities' respective Long-Term IDRs because derivative counterparties have no definitive preferential status over other senior obligations in a resolution in the UK (CSI) or in Spain (CSBE). CSD's deposit ratings are aligned with the entity's IDRs.

The entities' Short-Term IDRs of 'F1' are equalised with CS AG's. CSI's and CSUSA's senior unsecured debt ratings are in line with the entities' respective IDRs.

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

RATING SENSITIVITIES

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

The most likely trigger for a downgrade of CSG's ratings is deterioration of the group's risk-adjusted earnings prospects, which could arise from a loss in franchise in its IB operations if the reduction in risk appetite results in revenue declines that are not met by sufficient cost and RWA reductions. We would likely downgrade the ratings if there is no clear path for the group to achieve an operating return on RWA close to 1.5% (2020: 1.2%).

Ratings would also come under pressure if the strengthening of the group's risk governance is not implemented effectively.

The ratings would also come under pressure if CSG is unable to maintain its CET1 ratio above the group's 13% target in 2021 or if new capital targets under the updated three-year plan are not consistent with the group's risk appetite and exposure.

CSG's ratings are also sensitive to the amount of common equity double leverage at the holdco and could be downgraded if we expect it to increase and remain above 120% without mitigating action being taken by the group.

AT1 debt would be downgraded if the relevant entities' VRs are downgraded. CSG's AT1 debt could also be downgraded if its non-performance risk relative to the VR increases, for example, if we no longer expect CSG to be able to maintain capital buffers of at least 100bp of RWAs above coupon restriction thresholds.

The Long-Term IDR and VR of CS Schweiz would likely be downgraded if CSG and CS AG are downgraded given the significant correlation in their credit profiles. The ratings are also sensitive to deterioration of the standalone profile of CS Schweiz and would come under pressure if asset quality deteriorates, which we currently do not expect given its low-risk loan portfolio.

The IDRs of other subsidiaries would be downgraded in case of a downgrade of CS AG. They would also be downgraded to the level of CS AG's VR if we no longer expect their senior creditors to benefit from the parent's resolution debt buffers.

DCRs, senior debt and deposit ratings (where assigned) would be downgraded if the respective entities' IDRs are downgraded.

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

The Outlooks could be revised to Stable if there is a clear path for the group to improve its earnings with a reduced risk appetite. This will likely require several quarters of performance record after the announcement of the outcome of the strategic review, evidence of low execution risk and of a substantial completion of the risk-governance remediation.

An upgrade of CSG's and CS AG's ratings is unlikely in the near term as indicated by the Negative Outlook but could result from significant progress in improving risk-adjusted returns while maintaining a reduced risk appetite. CS AG's Short-Term IDR could also be upgraded if the bank's funding and liquidity score is upgraded to 'aa-'.

CSG's and CS AG's Tier 2 debt and CSG's AT1 debt would be upgraded if the respective entities' VRs are upgraded.

An upgrade of CS Schweiz would require an upgrade of CS AG and a longer record of strong and stable earnings and capitalisation.

The ratings of the other subsidiaries are likely to be upgraded if CS AG is upgraded.

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

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 CSI, CSD, CSBE, CSUSA and Credit Suisse AG NY branch are directly linked to CS AG. The ratings of Credit Suisse Group Funding (Guernsey) Limited are directly linked to CSG.

ESG Considerations

CSG and its subsidiaries have ESG Relevance Scores of '4' for Governance Structure as the group's governance issues are a contributor to the Negative Outlook. This 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

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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

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• subordinated	LT	BBB	Affirmed		BBB
• senior unsecured	LT	A(EXP)	Affirmed		A(EXP)
• 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

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT	A	Affirmed		A
Credit Suisse (Deutschland) AG	LT IDR	A	Affirmed		A
	ST IDR	F1	Affirmed		F1
	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	LT	BB+	Affirmed		BB+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT	A-	Affirmed		A-
• senior unsecured	ST	F2	Affirmed		F2
Credit Suisse NY	LT IDR	A	Affirmed		A
	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	LT IDR	A+	Affirmed		A+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
(Schweiz) AG					
	ST IDR	F1	Affirmed		F1
	Viability	a	Affirmed		a
	Support	1	Affirmed		1
	DCR	A+(dcr)	Affirmed		A+(dcr)
Credit Suisse Bank (Europe) 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)

Additional Disclosures

Solicitation Status

Endorsement Status

Credit Suisse (Deutschland) AG	UK Issued, EU Endorsed
Credit Suisse (USA), Inc.	UK Issued, EU Endorsed
Credit Suisse Bank (Europe) S.A.	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

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