S&P Global
Ratings

Research

Research Update:

Credit Suisse AG Upgraded To 'A+' On Sustained Earnings Improvements; Outlook Stable

May 21, 2019

PRIMARY CREDIT ANALYST

Bernd Ackermann
Frankfurt
(49) 69-33-999-153
bernd.ackermann
@spglobal.com

SECONDARY CONTACT

Anna Lozmann
Frankfurt
(49) 69-33-999-166
anna.lozmann
@spglobal.com

Overview

- Credit Suisse continues to improve its earnings capacity following completion of its restructuring initiatives, and is now performing in line with peers.
- As a result, we are raising our long-term issuer credit ratings on Credit Suisse AG and the group's other core operating subsidiaries to 'A+' from 'A', while affirming our 'A-1' short-term issuer credit ratings on these entities, and our 'BBB+' long-term issuer credit ratings on Credit Suisse Group AG.
- Additionally, we are raising our long-and short-term resolution counterparty ratings (RCRs) on Credit Suisse AG and its rated subsidiaries in Europe to 'AA-/A-1+' from 'A+/A-1', while raising the long-term RCR on its broker-dealer subsidiary in the U.S. to 'A+' from 'A' and affirming the 'A-1' short-term RCR on this entity.
- The stable outlook on all entities reflects our view that the group's franchise in global wealth management and domestic corporate retail banking will continue to support group earnings.

Rating Action

On May 21, 2019, S&P Global Ratings raised to 'A+' from 'A' its long-term issuer credit rating on Switzerland-based Credit Suisse AG (CSAG), 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 (CSG), the group's non-operating holding company. The outlook on all entities is stable.

We also raised to 'AA-/A-1+' from 'A+/A-1' our long- and short-term resolution counterparty ratings (RCRs) on CSAG and its rated subsidiaries in Switzerland, the U.K., Spain, and Germany. We raised to 'A+' from 'A' our long-term RCR on Credit Suisse Securities (USA) LLC, and affirmed our 'A-1' short-term RCR on this entity.

In addition, we affirmed our issue ratings on CSG's senior unsecured debt, and on subordinated and hybrid capital instruments issued by group entities.

Rationale

The upgrade stems from Credit Suisse's continued earnings improvement following completion of a three-year restructuring program, as demonstrated by strong growth in wealth management earnings thanks to sustained inflows of assets under management. The earnings improvement also reflects a lower cost base, lower refinancing cost, and a lower earnings drag from non-strategic assets and non-recurring charges. We believe these improvements are sustainable and expect growth of the group's more stable wealth management activities will outpace that of its investment banking and trading-related activities as the benefits of its revised strategy continue to unfold. In addition, Credit Suisse has reduced the risk profile of its investment banking activities and materially strengthened its risk management and compliance functions over the last few years.

We now assume Credit Suisse will achieve a pretax profit of about Swiss franc (CHF) 5 billion in 2019, rising to about CHF6 billion by 2021, which is a strong improvement from only CHF3.4 billion in 2018. Our earnings projection is more conservative than management's estimation for return on tangible equity of 10%-11% in 2019. In our view, management's expectation implies pretax profit of CHF5.5 billion-CHF6 billion for 2019. We remain cautious regarding to what extent the capital markets environment will support revenue generation given the range of unresolved political risks such as global trade tensions or Brexit, which may affect investor confidence globally. Nevertheless, we think that some of the year-on-year revenue slowdown at Credit Suisse in the first quarter of 2019 is seasonal rather than permanent.

Based on our earning assumptions, Credit Suisse will achieve an earnings buffer of 80 basis points (bps) to 100 bps on the group's S&P Global Ratings' risk-weighted assets (RWAs) over the next three years. This is broadly commensurate with the projected average of 110 bps earnings buffer of Credit Suisse's peer group. Peers comprise large European and U.S. banks with material wealth management or capital markets activities. Thus, we are removing the negative adjustment notch for the group's underperformance relative to similarly rated peers. We had only applied this negative adjustment to our issuer credit ratings on the operating companies. Therefore our issuer credit rating on CSG and the issue ratings on subordinated and hybrid capital instruments issued by group entities are unaffected by the current positive developments. Our earnings buffer metric compares banks' normalized operating income to S&P Global Ratings RWAs, with normalized operating income representing pre-provision operating income after deducting both one-off items and our estimate of normalized "through the cycle" credit losses.

Additionally, the affirmation of our ratings on CSG and the group's hybrid capital instruments reflects our view that the rebalancing of resources toward stable businesses will take time. At this stage, Credit Suisse has a high share of investment banking and trading-related revenues in its peer group, at about 40% of operating revenues. In particular, it is one of the leading banks in leveraged finance, which we generally regard as an activity with elevated risks. In our view, its business mix also exposes Credit Suisse to a range of market, litigation, and other non-financial risks, similar for its main peers. This why we consider the 'a-' unsupported group credit profile (UGCP) appropriately reflects the steady-state business model, including restored earnings capacity but also inherent and difficult to manage risks. That said, we think that Credit Suisse manages these risks prudently.

Our ratings remain supported by the bank's strong franchise and domicile in Switzerland, which we regard as having one of the safest banking systems globally. It is further supported by its position as one of the leading global banks for wealth management to ultra-high-net-worth individuals in particular, its strong capital ratios underpinned by a projected risk-adjusted capital (RAC) ratio of 12.0%-12.5%, sound asset quality, and its adequately matched asset and liability

profile with a high share of deposit funding. High buffers of bail-inable gone concern capital primarily issued by CSG further support our ratings on CSAG and the group's other core operating subsidiaries. An additional loss-absorbing capacity (ALAC) ratio of about 11% of S&P Global Ratings risk-weighted assets at year-end 2018 underpins our assessment.

We set the resolution counterparty ratings (RCRs) on CSAG and subsidiaries in Switzerland, Spain, Germany, and the U.K. one notch above our 'A' long-term issuer credit ratings, while we align our RCR on U.S.-based Credit Suisse Securities (USA) LLC with our 'A' issuer credit rating on this entity.

Outlook

The stable outlooks reflect our view that the group's franchise in global wealth management and domestic corporate retail banking will continue to support group earnings. However, we believe material rebalancing of the group's revenue mix away from investment banking and trading-related activities will be gradual. The stable outlooks also reflect our assessment that successive restructuring at Credit Suisse has ended. We also consider the group will sustain strong capitalization and the risk of material one-off charges from litigation, for example, has diminished.

We consider an upgrade of CSG and its operating subsidiaries including CSAG as unlikely over our standard outlook horizon of the next 12- 24 months. We consider that banking groups with higher UGCPs typically have more diversified and larger franchises than Credit Suisse and show longer records of sound profitability across their business lines. Moreover, for the issuer credit ratings on Credit Suisse AG and on the group's other core operating subsidiaries, we would limit the uplift for ALAC to '+1' from '+2' currently, if we were to raise the UGCP on Credit Suisse to 'a' from 'a-'. Therefore, such an improvement would not benefit the issuer credit ratings. In line with our ALAC methodology, this would reflect incremental uncertainty regarding how a resolution would be handled in a severe stress scenario for banks that are far away from potential distress. However, changes in the UGCP could have implications on our ratings on CSG and its debt issuances, and on the operating banks' hybrid debt instruments.

We could lower the ratings on CSG, CSAG, and other operating subsidiaries in the case of any large unexpected charges in what we consider more vulnerable segments, like leveraged finance or structured credits, or if material new litigation risks emerged, especially if they jeopardized our projection of a RAC ratio comfortably above 10%. We could also lower our ratings if, contrary to our expectations, the group were to embark on a more aggressive lending strategy over the next 12-24 months to boost earnings.

Ratings Score Snapshot

	To	From
Resolution Counterparty Ratings*	AA-/A-1+	A+/A-1
Issuer Credit Rating*	A+/Stable/A-1	A/Positive/A-1
Unsupported GCP	a-	a-
Anchor	a-	a-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Strong (+1)	Strong (+1)

	To	From
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and (0)	Average and (0)
	Adequate	Adequate
Support	(+2)	(+2)
ALAC Support	(+2)	(+2)
GRE Support	(0)	0
Group Support	(0)	0
Sovereign Support	(0)	0
Additional Factors	(0)	(-1)

*Refers to the rating level of Credit Suisse AG and other core operating subsidiaries of Credit Suisse Group AG. GCP—Group credit profile. GRE—Government-related entity.

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: Switzerland, Nov. 30, 2018
- Credit Suisse AG Outlook To Positive On Restructuring Progress; 'A+/A-1' Resolution Counterparty Ratings Assigned, June 25, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Switzerland Completed, June 25, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Germany Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Spain Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdictional Assessment For The U.S. Completed, June 7, 2018
- Resolution Counterparty Ratings Jurisdictional Assessment For The U.K. Completed, April 30, 2018

Ratings List

Ratings Affirmed	
Credit Suisse Group AG	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured	BBB+
Junior Subordinated	BB
Junior Subordinated	BB-
Credit Suisse AG	
Subordinated	BBB
Commercial Paper	A-1
Credit Suisse AG (London Branch)	
Subordinated	BBB
Credit Suisse AG (New York Branch)	
Subordinated	BBB
Credit Suisse AG (Tokyo Branch)	
Commercial Paper	A-1
Credit Suisse Group Finance (Guernsey) Ltd.	
Senior Unsecured	BBB+
Credit Suisse Group Finance (U.S.) Inc.	
Subordinated	BBB-

Credit Suisse Group Funding (Guernsey) Ltd.		
Senior Unsecured	BBB+	
Upgraded		
	To	**From**
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+	A+/--/A-1
Credit Suisse (USA) Inc.		
Senior Unsecured	A+	A
Credit Suisse AG		
Senior Unsecured	A+	A
Credit Suisse AG (Guernsey Branch)		
Senior Unsecured	A+	A
Credit Suisse AG (London Branch)		
Senior Unsecured	A+	A
Senior Unsecured	A+p	Ap
Credit Suisse AG (New York Branch)		
Senior Unsecured	A+	A
Credit Suisse AG (Sydney Branch)		
Senior Unsecured	A+	A
Credit Suisse International		
Senior Unsecured	A+	A

Upgraded; Short-Term Ratings Affirmed		
	To	**From**
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	A/Positive/A-1
Upgraded; Short-Term Rating Affirmed		
	To	**From**
Credit Suisse Securities (USA) LLC		
Resolution Counterparty Rating	A+/--/A-1	A/--/A-1

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. 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.