

Research Update:

# Credit Suisse Outlook Revised To Negative On Concerns About The Group's Risk Management

March 30, 2021

## Overview

- Earlier this week, Credit Suisse Group AG announced it may incur a material loss relating to prime brokerage exposures to a U.S. hedge fund that defaulted on margin calls.
- We believe Credit Suisse can manage potential financial losses due to its strong capitalization and robust underlying earnings, but the incident raises questions about the quality of risk management, the group's risk appetite, and adequacy of the risk return profile.
- We revised our outlooks on Credit Suisse group entities to negative from stable while affirming our 'A+/A-1' ratings on Credit Suisse AG and other core operating subsidiaries, and our 'BBB+' ratings on Credit Suisse Group AG.
- The negative outlooks on all entities reflect our view that potential material losses may stem from deficiencies in the group's risk management system or risk appetite that are not reflected in the current ratings.

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## Rating Action

On March 30, 2021, S&P Global Ratings revised its outlooks on all entities of the Switzerland-based Credit Suisse Group to negative from stable. We affirmed our 'A+/A-1' long- and short-term issuer credit ratings on Credit Suisse AG, the principal operating bank of the Credit Suisse group, and the group's other core subsidiaries.

We also affirmed our 'BBB+' long-term issuer credit rating on Credit Suisse Group AG, the group's nonoperating holding company.

At the same time, we 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, as well as our 'A+/A-1' long- and short-term RCRs on Credit Suisse Securities (USA) LLC.

Additionally, we affirmed our issue ratings on all senior unsecured, subordinated, and hybrid capital instruments issued by rated group entities.

## Rationale

**Potential material loss from a single client exposure raise questions about the quality of the group's risk management and risk appetite.** In our view, there is a meaningful risk that clarification of the reasons for a potential material loss related to a single client may reveal deficiencies in Credit Suisse group's risk management system or a risk appetite that is not commensurate with the current ratings. As a result of its investment banking and asset management activities, Credit Suisse's risk profile remains complex and entails financial and nonfinancial risks. We already reflect this in our assessment of the group's risk position as moderate and business position as adequate. The potential U.S. hedge fund loss follows the recent closure of four supply chain funds connected to Greensill, which similarly raised questions about Credit Suisse's management of exposure concentrations.

**Despite the risks, we expect financial damage to Credit Suisse will remain contained.** We believe Credit Suisse can absorb the negative financial impact from the possible loss. We think the accumulated potential losses related to the Greensill funds and losses arising from its prime broker exposure may consume a material proportion of the 2021 results, but we still expect the group to report robust underlying earnings and remain profitable overall.

**A strong capital buffer remains a second line of defense against adverse scenarios.** Credit Suisse 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'. We would consider revising our assessment of capital and earnings downward if our projected RAC ratio falls below 10%. Currently, we believe such a scenario is unlikely.

## Outlook

The negative outlook reflects our concerns about the group's risk management and potential financial risks from exposures to the U.S. hedge fund and Greensill group. These concerns also relate to potential deficiencies in Credit Suisse's management of exposure concentration risk.

Credit Suisse's management of its relationships with the U.S. hedge fund and Greensill group also has potential to damage the bank's reputation, which was already tarnished following high-profile governance issues in 2020 and culminated with its CEO's departure.

## Downside scenario

We could lower the ratings on Credit Suisse Group AG, Credit Suisse AG, and other operating subsidiaries over the next 12-24 months if:

- Investigations reveal risk management deficiencies and we conclude that the group's risk return profile is not adequately reflected in the current rating;
- Material new litigation risks emerge;
- The regulatory investigations into Credit Suisse's business relationships reveal failure of fundamental management controls or governance issues; or
- Litigations costs, credit losses, and fair-value adjustments for loans materially exceed our current base-case projections, resulting in RAC ratio forecasts below 10%.

## Upside scenario

We will consider revising our outlooks to stable over the next 12-24 months if we determine that risks from both the U.S. hedge fund and Greensill group are sufficiently reflected in the rating and that the group's risk management, control, and governance systems are prudent and in line with peers'.

## Ratings Score Snapshot

Credit Suisse Group AG (Holding Company)

Credit Suisse AG (Lead Bank)

	To	From
Issuer Credit Rating	A+/Negative/A-1	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+	AA-/--/A-1+
Holding Company Issuer Credit Rating	BBB+/Negative/--	BBB+/Stable/--
SACP	a-	a-
Anchor	a-	a-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding and	Average and (0)	Average and (0)
Liquidity	Adequate	Adequate
Support	2	2
ALAC support	2	2
GRE support	0	0
Group support	0	0
Additional factors	0	0

## 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015

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- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Credit Suisse AG 'A+' Long-Term Rating Affirmed Amid Uncertainties Following Recent Supply Chain Finance Funds Closure, March 19, 2021
- 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

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**Credit Suisse (Deutschland) AG**

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**Credit Suisse Securities Sociedad de Valores S.A.**

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**Credit Suisse Securities (Europe) Ltd.**

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**Credit Suisse International**

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**Credit Suisse AG (New York Branch)**

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**Credit Suisse AG (Cayman Islands Branch)**

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**Credit Suisse AG**

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**Credit Suisse (Schweiz) AG**

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Resolution Counterparty Rating AA/--/A-1+

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**Credit Suisse Securities (USA) LLC**

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Resolution Counterparty Rating A+/--/A-1

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**Credit Suisse Group AG**

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Senior Unsecured	BBB+
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Junior Subordinated	BB
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Junior Subordinated	BB-
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**Credit Suisse (Singapore Branch)**

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Senior Unsecured	A+
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**Credit Suisse (USA) Inc.**

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Senior Unsecured	A+
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### Credit Suisse AG

Senior Unsecured	A+
Subordinated	BBB

### Credit Suisse AG (Guernsey Branch)

Senior Unsecured	A+
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### 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
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### Credit Suisse Group Funding (Guernsey) Ltd.

Senior Unsecured	BBB+
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### Credit Suisse International

Senior Unsecured	A+
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### Ratings Affirmed; Outlook Action

	To	From
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### Credit Suisse Group AG

Issuer Credit Rating	BBB+/Negative/NR	BBB+/Stable/NR
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### 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+/Negative/A-1	A+/Stable/A-1
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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](http://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/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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

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