Research Update:

Credit Suisse Outlook Revised To Negative On Leadership Changes, Strategic Review, Market Headwinds; Ratings Affirmed

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Overview

- Credit Suisse's poor second-quarter performance, aggravated by a very challenging market environment, has triggered a change in leadership and another strategic review.
- We see increasing risks to the stability of the bank's franchise, uncertainty around the reshuffling of top executives, and a lack of a clear strategy, and we think the group's risk-adjusted and absolute profitability is likely to remain weak over the medium term.
- We revised our outlooks on Credit Suisse group entities to negative from stable and affirmed 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 outlook reflects the setbacks Credit Suisse could face in redesigning its strategy, with new management at the helm, in order to transform the bank in an increasingly difficult operating environment.

Rating Action

On Aug. 1, 2022, 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.

Additionally, we affirmed our 'A+/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.

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

Rationale

Credit Suisse's poor second-quarter performance amid a difficult market environment led us to revise down our projections. Credit Suisse reported a pre-tax loss of Swiss franc (CHF) 1.2 billion for second-quarter 2022. The loss is due to weak operating performance across all segments except the Swiss business and exacerbated by sizable one-off expenses, including those related to litigation and valuation losses. The magnitude of the losses is bigger than we had anticipated (see "Credit Suisse AG Downgraded To 'A' As Management Reshapes Risk And Return Profile; Outlook Stable, published May 16, 2022, on RatingsDirect), and we have consequently revised down our base-case expectations for revenue and bottom-line profitability. Furthermore, the investment bank reported pronounced losses again, mainly driven by extraordinary valuation losses, a larger-than-expected reduction in top-line revenue, and an elevated cost base. We do not expect a rapid improvement. Wealth management and asset management earnings also slumped, due in part to cyclical pressure on revenue as well as the lack of flexibility in the cost base.

The coming and going of key leaders is likely to hatch additional disruption risks for the group's transformation. We understand the higher-than-expected losses and stiff competitive environment have prompted management to rethink its strategy. Following an already initiated reallocation of capital toward wealth management, the group is likely to further reduce its exposure to investment banking and focus on improving the group's capital efficiency. If successful, this approach could free up capital and stabilize group revenue and bottom-line performance, albeit at a lower level. The group has announced a further tightening of its cost program and targets a mid-term cost base of below CHF15.5 billion. This, however, is based on the group's current structure, which could change amid the group's transformation. Management also announced its ambition to strengthen its wealth management, Swiss banking and asset management segments, as well that it considering strategic options to attract external capital for is securitized products business. We understand details will be revealed only after a strategic review. This will take place over the coming months under the new CEO, Mr. Ulrich Körner, who replaced Mr. Thomas Gottstein. The longstanding CFO, Mr. David Mathers, will also leave the bank once a successor has been found.

We believe risks to Credit Suisse's franchise stability have increased further. Credit Suisse, similar to its main peers, was up against adverse operating conditions in the second quarter. This hasn't helped as the group already had to tackle decreasing revenue base from ongoing de-risking activities, restructuring and litigation costs, as well as higher refinancing costs. We think these factors increase the difficulties new management will face in turning the bank toward a more stable and reasonably successful operating model. We consider it particularly challenging for Credit Suisse to strengthen the earnings contribution from its international wealth and asset management business, which also showed some signs of franchise weakness over the first half of the year.

In our view, transformation risk has heightened, and the group's risk-adjusted profitability is likely to remain weak over the medium term. The need to revisit the strategy will likely hinder the transformation and yield additional, sizable restructuring costs. Although Credit Suisse stands to benefit from rising net interest margin, we expect a widening gap between Credit Suisse's performance and that of other rated European peers in our 'bbb+' SACP group, such as Barclays or Societe Generale. We also see a widening gap between Credit Suisse and U.S. banks operating

globally, specifically regarding cost efficiency. In our view, the group's setbacks bring its creditworthiness closer to that of Deutsche Bank AG and UniCredit SpA, both of which have 'bbb' SACPs.

Our credit rating assessment continues to account for the still-uncertain effectiveness of the remedial measures for Credit Suisse's risk management capabilities. We think that legacy issues, until they are resolved, intensify the uncertainty around the group's financial forecast and taint the group's reputation. Nevertheless, we view positively that the group continues to have a robust capitalization, demonstrated by its reported common equity tier 1 ratio of 13.5% at end-June 2022. We also expect that our projected risk-adjusted capital (RAC) ratio will remain strong despite the deteriorated profitability prospects and expected restructuring costs likely to be announced later this year. We forecast our RAC ratio to remain at 13%-14%, providing a sizable buffer and remaining stronger than most peers'. We also consider Credit Suisse's strong liquidity buffers remain important mitigants to uncertainties during the transformation.

Outlook

The negative outlook reflects the uncertainty regarding Credit Suisse's strategy and the significant challenges for the new management to transform the bank against strong operating headwinds. We see significant execution risk in stabilizing the bank's franchise with improved and sustainable risk-adjusted profitability and reduced tail-risks to earnings.

Downside scenario

We could lower the ratings on Credit Suisse Group AG, Credit Suisse AG, and operating subsidiaries over the next 12-24 months if management fails to stabilize the bank's franchise and earnings under the new strategy, which has yet to be defined. We could also downgrade the entities if past failures in risk management and governance incurred further damage on the group's reputation and franchise, or if new litigation risks emerged that materially dented the group's performance or capital.

Upside scenario

We could revise the outlook to stable once we have clarity on the updated strategy and new management has demonstrated its ability to stabilize the bank. This would mean a less volatile revenue base and improving efficiency, while sustaining strong capital and ample liquidity buffers. A stable outlook would also hinge on a material reduction in the risks linked to past financial and reputational issues.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-4

We see governance factors as a negative consideration in our credit rating analysis of Credit Suisse. The group's size, complexity, and large operations in investment banking and wealth management services make good management of governance factors crucial. Structural governance risk remains an issue in large complex organizations and could cause reputational

damage. Risk events in 2020-2021 and frequent changes in Credit Suisse's top management make the group a negative outlier in terms of governance.

Ratings Score Snapshot

Credit Suisse AG

Lead bank		
	To	**From**
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
SACP	bbb+	bbb+
Anchor	a-	a-
Business position	Adequate	Adequate
Capital and earnings	Strong	Strong
Risk position	Moderate	Moderate
Funding	Adequate	Adequate
Liquidity	Adequate	Adequate
Comparable ratings analysis	-1	-1
Support	2	2
ALAC support	2	2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Credit Suisse Group AG

Holding company		
	To	**From**
Issuer Credit Rating	BBB/Negative/--	BBB/Stable/--

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Governance structure
- Risk management, culture, and oversight

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Suisse Group AG and Credit Suisse AG, June 23, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022
- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022
- Credit Suisse AG Downgraded To 'A' As Management Reshapes Risk And Return Profile; Outlook Stable, May 16 2022
- European G-SIBs Monitor Q2 2022, May 12, 2022
- After A Big Year, Banks' Capital Markets Revenue Will Likely Fall In 2022, April 12, 2022
- Credit Suisse's Supply Chain Funds Collect Further Cash But Valuation Remains Uncertain, April 13, 2021
- Outsized Hedge Fund Exposure Pushes Credit Suisse To A First-Quarter Loss, April 6, 2021
- Credit Suisse Outlook Revised To Negative On Concerns About The Group's Risk Management, March 30, 2021

Ratings List

Ratings Affirmed		
Credit Suisse (Deutschland) AG		
Credit Suisse Securities (Europe) Ltd.		
Credit Suisse International		
Credit Suisse Bank (Europe) S.A.		
Credit Suisse AG (New York Branch)		
Credit Suisse AG (Cayman Islands Branch)		
Credit Suisse AG		
Credit Suisse (Schweiz) AG		
Resolution Counterparty Rating	A+/--/A-1	
Credit Suisse Securities (USA) LLC		
Resolution Counterparty Rating	A/--/A-1	
Credit Suisse Group AG		
Senior Unsecured	BBB	
Junior Subordinated	B+	
Junior Subordinated	BB-	
Credit Suisse (Singapore Branch)		
Credit Suisse (USA) Inc.		
Credit Suisse International		
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	Ap	
Subordinated	BBB-	
Credit Suisse AG (New York Branch)		
Senior Unsecured	A	
Commercial Paper	A-1	
Credit Suisse Group Funding (Guernsey) Ltd.		
Senior Unsecured	BBB	
Ratings Affirmed; Outlook Action		
	To	**From**
Credit Suisse Group AG		
Issuer Credit Rating	BBB/Negative/NR	BBB/Stable/NR

Credit Suisse (Deutschland) AG		
Credit Suisse Securities (USA) LLC		
Credit Suisse Securities (Europe) Ltd.		
Credit Suisse International		
Credit Suisse Bank (Europe) S.A.		
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

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; or Stockholm (46) 8-440-5914