

Research Update:

Credit Suisse AG Downgraded To 'A' As Management Reshapes Risk And Return Profile; Outlook Stable

May 16, 2022

Overview

- A series of risk events have shed light on Credit Suisse's risk appetite and deficiencies in its risk control framework. Although the group is actively working on remediation actions, we think a lasting change to the risk culture in such a complex global organization will take time. We now think this will be even more difficult in a deteriorating economic and business environment.
- We also see management targets to restore profitability as ambitious, particularly in the context of widespread management change and economic uncertainties. In our view, the group's risk-return is likely to remain below that of its key competitors and other highly rated peers, at least over the medium term.
- We have lowered our long-term issuer credit ratings on the lead operating bank, Credit Suisse AG, and the group's other core operating subsidiaries to 'A' from 'A+'. We have also lowered our long-term issuer credit ratings on Credit Suisse Group AG, the group's nonoperating holding company, to 'BBB' from 'BBB+'.
- The stable outlook reflects our view that remediating actions taken will allow the group to prevent longer-lasting reputational damage and impairments of its franchise and business stability.

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Rating Action

On May 16, 2022, S&P Global Ratings lowered its long-term issuer credit rating on Credit Suisse AG, the principal operating bank of the Credit Suisse group (Credit Suisse), and the group's other core subsidiaries to 'A' from 'A+'.

At the same time, we lowered our long-term issuer credit rating on Credit Suisse Group AG, the group's nonoperating holding company, to 'BBB' from 'BBB+'.

We also lowered our resolution counterparty ratings (RCRs) on Credit Suisse AG and its rated subsidiaries in Switzerland, the U.K., Spain, and Germany to 'A+/A-1' from 'AA-/A-1+'. We lowered our RCR on Credit Suisse Securities (USA) LLC to 'A/A-1' from 'A+/A-1'.

We downgraded all Credit Suisse Group AG's senior unsecured debt, as well as the subordinated

and hybrid capital instruments issued by group entities.

The outlook on all entities is stable.

Rationale

Although we acknowledge that the group is actively working to enhance its risk management capabilities, the effectiveness of these remediating actions remains uncertain. A series of risk events have shed light on the firm's risk appetite and culture, as well as on deficiencies in its risk control and compliance frameworks. Widespread changes to senior management amid a broader governance overhaul confirm the depth of the problem, although they also reflect a strong commitment to remediation. Beyond the financial implications of these events for the bank's profits, we think enhancing the risk culture in such a complex global organization will consume a significant amount of management focus and time.

We think Credit Suisse's execution of the revised strategy may prove challenging. We expect more volatile revenue from higher-risk investment banking activities to decrease in line with the exposure reduction. The group aims to compensate for this reduction by improving revenue, primarily in the wealth and asset management business. In addition, the group's management expects efficiency benefits under the streamlined organizational setup will add to bottom-line profitability. We think the execution of this revised strategy may prove challenging in light of tough competition; economic slowdown in core markets, particularly in Asia-Pacific; and inflationary pressure on the cost base.

Our rating also takes into consideration tail risks related to ongoing litigation and regulatory investigations. The group needs to resolve material open litigations and regulatory investigations to clear it from pending tail risks. Furthermore, as per the decision of the annual general meeting, the shareholders did not discharge the board and executive board for the 2020 financial year. The discharge for 2021 was granted but it excluded issues related to Credit Suisse Supply Chain Finance Funds. Until legacy issues are resolved, they bring material uncertainty to the financial forecast and weigh on the group's reputation. We nevertheless acknowledge that the bank's robust capitalization--a reported Common Equity Tier 1 ratio of 13.8% at end-March and a projected S&P Global Ratings risk-adjusted capital ratio of 14.5%-15.0%--provides a sizable buffer to absorb outsized costs.

Negative one-offs and the fallout of parts of the group's investment banking business will dent medium-term profitability. We forecast net income of approximately Swiss franc (CHF) 1.5 billion-CHF2.0 billion for 2022, recovering gradually in 2023-2024 thanks to the realization of the new strategy, including cost savings, and the improving interest-rate environment. Over 2021 and in Q1 2022, litigation and impairment charges continued to burden the group's profitability. For 2021, the group reported a loss of CHF1.65 billion, particularly affected by a net charge of CHF4.8 billion relating to Archegos. For Q1 2022, the group reported a CHF273 million loss due to litigation expenses of CHF703 million for diverse legacy matters and risk provisions totaling CHF206 million related to the Russia-Ukraine conflict.

In our view, the group's risk-return is likely to remain below that of more highly rated peers, at least over the medium term. We are lowering the group's stand-alone credit profile (SACP) to 'bbb+' from 'a-' by introducing a negative notch under our comparable ratings analysis. This reflects tail risks from the final cleanup of recent events, the time needed to sustainably improve

the risk culture, and uncertainty regarding the future success of management's strategy to improve and stabilize profitability. We consider that peers with an 'a-' SACP, such as Morgan Stanley, Goldman Sachs Group Inc., and Citigroup Inc., generally exhibit better track records of profitability and risk management. We see Credit Suisse as more in line with other European peers at the 'bbb+' level, such as Barclays or Societe Generale, as well as partly with Deutsche Bank AG and UniCredit SpA at the 'bbb' level.

Outlook

The stable outlook reflects our view that remediating actions taken will allow the group to prevent longer-lasting reputational damage and impairments of its franchise and business stability.

The stable outlook also reflects our expectations that, after the de-risking and proactive cleaning of larger legacy cases, the group will report less volatile returns over the cycle while keeping its strong capital buffer.

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 recent events had a further material negative effect on the group's reputation and franchise, or if new litigation risks emerged that would materially dent the group's performance or capital.

Upside scenario

An upgrade is remote over the next 12-24 months. We could upgrade the group if it demonstrated a track record of sustainable risk-return on a par with higher-rated peers, while keeping its strong capital buffers. The group would also need to eliminate risks stemming from financial and reputational failures, with no new material cases emerging.

Environmental, Social, And Governance

ESG credit indicators: To E-2, S-2, G-4 From E-2, S-2, G-3

We now 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 and 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/Stable/A-1	A+/Negative/A-1
SACP	bbb+	a-
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	0
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/Stable/NR	BBB+/Negative/--

NR--Not rated.

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

- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Suisse Group AG, Dec. 6, 2021
- 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

Downgraded

	To	From
Credit Suisse 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 (Schweiz) AG		
Credit Suisse (Deutschland) AG		
Resolution Counterparty Rating	A+/-/-A-1	AA/-/-A-1+
Credit Suisse AG		
Senior Unsecured	A	A+
Subordinated	BBB-	BBB
Credit Suisse (Singapore Branch)		
Senior Unsecured	A	A+

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Credit Suisse (USA) Inc.

Senior Unsecured	A	A+
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Credit Suisse AG (Guernsey Branch)

Senior Unsecured	A	A+
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Credit Suisse AG (London Branch)

Senior Unsecured	A	A+
Senior Unsecured	Ap	A+p
Subordinated	BBB-	BBB

Credit Suisse AG (New York Branch)

Senior Unsecured	A	A+
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Credit Suisse Group AG

Senior Unsecured	BBB	BBB+
Junior Subordinated	BB-	BB
Junior Subordinated	B+	BB-

Credit Suisse Group Funding (Guernsey) Ltd.

Senior Unsecured	BBB	BBB+
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Credit Suisse International

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

	To	From
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Credit Suisse 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 (USA) Inc.

Credit Suisse (Schweiz) AG

Credit Suisse (Deutschland) AG

Issuer Credit Rating	A/Stable/A-1	A+/Negative/A-1
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Credit Suisse Group AG

Issuer Credit Rating	BBB/Stable/NR	BBB+/Negative/NR
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Downgraded; Ratings Affirmed

	To	From
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Credit Suisse Securities (USA) LLC

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

Credit Suisse AG (London Branch)

Short-Term Debt	A-1
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Credit Suisse AG (New York Branch)

Commercial Paper	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 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

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