Fitch Ratings

15 Mar 2019 | New Rating

Fitch Rates Credit Suisse (Deutschland) AG 'A-'; Positive Outlook

Fitch Ratings-London-15 March 2019: Fitch Ratings has assigned Credit Suisse (Deutschland) AG (CSD) a Long-Term Issuer Default Rating (IDR) of 'A-'. The Outlook is Positive. Fitch has also assigned CSD a Short-Term IDR of 'F1', a Support Rating of '1' and long- and short-term deposit ratings of 'A-' and 'F1', respectively.

KEY RATING DRIVERS

Fitch has equalised the Long-Term IDR of CSD with the Viability Rating (VR) of its 100% parent, Credit Suisse AG (A/Positive/a-). This reflects CSD's envisaged core role in the group post-Brexit, high reputational risk for CS in case of CSD's default, deep integration with the parent and the small size of the subsidiary relative to the parent, limiting the cost of potential support, if required. The Positive Outlook on CSD's Long-Term IDR mirrors that on CS.

CSD is a Frankfurt-based banking subsidiary of CS. It will act as CS's hub for activities with the majority of EU-27 counterparties that require a banking license following the UK's scheduled departure from the EU on 29 March 2019. We believe that CSD, as a core subsidiary, is an integral part of CS.

The ratings also reflect our view that a default of CSD would result in high reputational damage for the parent and could have significant implications for CS's overall franchise. We expect that CSD will take over new lending and loan underwriting, secondary loan trading, and related activities with EU-27 counterparties from CS's UK-based subsidiary Credit Suisse International (A-/Positive) upon the UK's departure from the EU. Existing business currently booked in Credit Suisse International will gradually migrate to CSD as contracts mature, and a material portion will be transferred by end-2019.

We expect CSD's management, governance and risk policies and controls to be highly integrated with the parent's. We also believe that capital and liquidity are likely to be fungible within the group as long as they exceed the requirements imposed by the local regulator.

CSD's Long-Term IDR is below that of CS since we do not expect the parent to initially pre-place at the subsidiary a sufficiently large buffer of junior debt. Over time, as CSD's balance sheet grows, the regulators may require CS to downstream to CSD a material amount of eligible debt that would be subordinated to external senior creditors. At that stage, we would likely use CS's Long-Term IDR, rather than the VR, as the anchor rating for CSD.

The 'F1' Short-Term IDR is the higher of the two options mapping to an 'A-' Long-Term IDR and is aligned with CS's Short-Term IDR. This reflects the benefits for CSD of the group's central treasury approach and strong funding and liquidity at CS level. The deposit ratings are aligned with CSD's IDRs. In Fitch's opinion, the bank's debt buffers are not likely to afford any obvious incremental probability of default benefit above the group's support benefit factored into the German subsidiary's IDRs. Furthermore, we have not assigned any uplift for above-average recovery prospects in the event of default because of the limited visibility on recovery in such circumstances.

RATING SENSITIVITIES

The ratings are mainly sensitive to changes in CS's VR. They are also sensitive to adverse changes in the parent's propensity to provide support. Sufficient buffers of junior and internal loss-absorbing debt pre-placed at CSD, along with clear regulatory incentives to maintain these, could result in CSD's Long-Term IDR being equalised with CS's, provided there are no changes to our view on CS's support propensity. CSD's deposit ratings are sensitive to the same factors as the subsidiary's IDRs.

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Applicable Criteria

[Bank Rating Criteria (pub. 12 Oct 2018)]

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