S&P Global
Ratings

Research

Research Update:

Germany-Based Credit Suisse (Deutschland) AG Assigned 'A/A-1' Ratings; Outlook Positive

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria

Related Research

Ratings List

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Overview

- As part of its Brexit-related contingency plan, Credit Suisse has given its fully licensed German bank subsidiary, Credit Suisse (Deutschland) AG (CSD), the critical role of ensuring the group can provide lending facilities across key EU markets once the U.K. leaves the EU.
- We believe the group would support CSD under all foreseeable circumstances if needed and inject additional capital, ahead of the U.K.'s expected EU exit in March 2019, to support CSD's planned lending growth.
- We are assigning our 'A/A-1' issuer credit ratings to CSD, in line with those on its direct parent Credit Suisse AG and other core operating subsidiaries.
- Our positive outlook on CSD reflects that on Credit Suisse AG and incorporates our expectation that CSD will successfully carry out its broader role for the group from 2019.
- We are also assigning CSD our 'A+/A-1' resolution counterparty ratings.

Rating Action

On Nov. 7, 2018, S&P Global Ratings assigned its 'A' long-term and 'A-1' short-term issuer credit ratings to Germany-based Credit Suisse (Deutschland) AG (CSD). The outlook on the long-term rating is positive.

We also assigned CSD our 'A+' long-term and 'A-1' short-term resolution counterparty ratings (RCRs).

Rationale

In preparation for the U.K.'s expected exit from the EU, and under the assumption that U.K. financial firms will lose their right to "passport" or sell their services across the EU, Credit Suisse will rely primarily on CSD to carry out its lending activity in key EU markets. Given the importance of lending products to support the group's broader investment banking and capital market activities in the EU, we expect CSD will become integral to the group's strategy. As such, we consider CSD to be a core subsidiary that would receive support from the group under any foreseeable circumstances. We therefore rate CSD in line with its direct parent, Credit Suisse AG, and at the same level as other core subsidiaries of the group.

CSD has a banking license and is a wholly owned subsidiary of Credit Suisse AG, the group's main operating entity. CSD will become critical for the group's uninterrupted client access and market connectivity, jointly with its Spain-based sister company and nonbanking investment firm, Credit Suisse Securities Sociedad de Valores S.A. (CSSSV). CSD will focus on activities requiring a banking license according to national regulations in major EU countries, principally lending business in Germany, France, and Spain. The group's U.K. entities may continue to provide loans in some other EU markets where regulation does not require a banking license for lending business. By comparison, CSSSV will focus on a wide variety of other services, principally fixed-income and equities brokerage and trading, and access to stock markets in the region. We see the products offered and territories served by CSD as integral to the group's long-term strategy and integrated with the group's other operations in Europe.

CSD holds a banking license from the German Federal Financial Supervisory Authority and has been operating for more than 20 years. Given that its span of business has been limited with a focus on non-strategic private banking and loan activities, some investments in risk management functions and related regulatory approvals are still needed for CSD to fully assume its more important role. We anticipate that these approvals will be forthcoming.

We understand that Credit Suisse will inject additional equity into CSD in early 2019 as the entity starts writing new business. This would boost CSD's capital base materially; although we expect that it will remain below 5% of group equity, our threshold for a material subsidiary. However, the bank will remain fully integrated in the wider group, leveraging the group's client base, sharing risks and operational infrastructure, and using common risk-management systems, notwithstanding its own control and corporate governance structure. CSD will operate as the principal booking vehicle for the group's lending business in key EU markets, rather than as a stand-alone franchise, and is embedded in the group's regional and functional management structure. The group does not plan to transfer existing transactions of the U.K. entities to CSD. Instead, it aims to write any relevant new lending from CSD while winding down existing loan books in the U.K. Given the short-term nature of many exposures, we understand that CSD's lending book will likely equal the residual loan book of the U.K. entities in the relevant EU countries by the end of 2020. The transition phase is likely to end by 2023.

CSD is part of the consolidated Credit Suisse group. As such, its capital and liquidity will likely be managed at the group level, with CSD paying dividends and receiving capital injections as needed, while maintaining capitalization comfortably above the regulatory minimum. We understand that CSD will continue to meet regulatory requirements and, if necessary, the group would play a supportive role to ensure that CSD remains adequately capitalized. We expect that the main capital constraint on CSD will be Germany's large-loan regulation, which caps the exposure to a single borrower group at 25% of the lender's regulatory capital. However, we understand that the group will be able to manage this constraint by risk sharing within the group. We further note that CSD plans to source its unsecured term funding from the group, when needed. We also assume that CSD would have access to the group's liquidity if needed.

Since we base our ratings on CSD on our expectation that the Credit Suisse group would support CSD under any foreseeable circumstances, we have not assigned a stand-alone credit profile to CSD. Instead, we align the ratings on CSD with the 'a' supported group credit profile (GCP) as well as the 'A' long-term issuer credit ratings on Credit Suisse AG and the group's other core operating companies. We use the supported GCP as the reference point for equalizing the ratings because we anticipate that, if the Credit Suisse group underwent a resolution process, CSD would benefit from the group's additional loss-absorbing capacity (ALAC). Our ALAC measure is similar to regulatory total loss-absorbing capacity (TLAC) and mainly incorporates debt issued by Credit Suisse's nonoperating holding company (Credit Suisse Group AG) that could support operating subsidiaries in a resolution scenario.

We note discussions among EU legislators on strengthening supervision and resolution of entities belonging to third-country groups with operations in the EU. This might require Credit Suisse, at some point in the future, to combine its operations in the EU, including CSD and CSSSV, under an intermediate parent undertaking (IPU) supervised by the European Central Bank. That could result in a requirement by authorities to downstream internal TLAC to such an IPU. Our rating on CSD is not contingent on it becoming the IPU or benefiting from an internal transfer of TLAC, but this would further underpin its core status.

CSD's mission is to operate across various EU countries from its domicile in Germany, which could expose it to a hypothetical default of a sovereign in those other countries. However, we understand it is very unlikely that CSD will have material exposure (25% or more of its total exposure) to any EU country where the sovereign rating is below CSD's. Therefore, these foreign exposures are not a rating constraint.

We set our RCRs on CSD one notch above our 'A' long-term issuer credit rating, reflecting the typical approach under our RCR framework when the issuer credit rating ranges from 'BBB-' to 'A+'. It also reflects our jurisdiction assessment of Germany. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Outlook

The positive outlook reflects our outlooks on Credit Suisse AG and the other core subsidiaries of the Credit Suisse group. It incorporates our expectation that the group will successfully expand CSD into its broader role for the group in 2019, and that CSD will receive additional capital from its parent and continue to play a key role in Credit Suisse's Brexit-related contingency plan.

Upside scenario

We could only raise our ratings on CSD over the next 18-24 months if we revised upward the GCP on Credit Suisse and raised our ratings on its core subsidiaries.

Downside scenario

We could revise the outlook to stable or lower the ratings in the next 18-24 months if we no longer considered CSD a core subsidiary of Credit Suisse. For example, we could view CSD's role for the group as weakening if it was unable to broaden its lending activities for the benefit of the group, to the extent that we currently expect. Moreover, we could take a negative rating action if we thought that CSD would be unable to benefit from support in a bail-in resolution of the group.

Related Criteria

- 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
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Spain-Based Credit Suisse Securities Sociedad de Valores Assigned 'A/A-1' Ratings; Outlook Positive, Oct. 11, 2018
- Credit Suisse Group AG, July 12, 2018

Ratings List

New Rating

Credit Suisse (Deutschland) AG	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/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. 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.