

Research Update:

Credit Suisse Placed On CreditWatch Positive On Acquisition By UBS; Tier 1 Hybrids Downgraded To 'C'

March 20, 2023

Overview

- On March 19, 2023, Credit Suisse and UBS entered into a merger agreement following the intervention of the Swiss Federal Department of Finance, the Swiss National Bank (SNB), and the Swiss Financial Market Supervisory Authority (FINMA). UBS will be the surviving entity when the merger closes.
- In our view, Credit Suisse's acquisition by the stronger UBS group will stabilize its franchise and its funding and liquidity, while strengthening its governance and risk management standards.
- SNB has also announced that substantial liquidity support would be available, in addition to the Swiss franc (CHF) 50 billion facilities already provided to Credit Suisse.
- Because FINMA has determined that approximately CHF16 billion of additional Tier 1 (AT1) capital issued by Credit Suisse Group AG will be written down to zero, we have downgraded these AT1 instruments to 'C'; we expect them to default in the near term.
- We placed our 'A-/A-2' long- and short-term issuer credit ratings on the group's core operating subsidiaries, including principal operating bank Credit Suisse AG, on CreditWatch positive. We also placed our 'BBB-' long-term issuer credit rating on nonoperating holding company Credit Suisse Group AG on CreditWatch positive.
- The CreditWatch placements indicate that we are likely to raise these ratings if the transaction is completed as proposed.

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Rating Action

On March 20, 2023, S&P Global Ratings took the following rating actions on Credit Suisse group (Credit Suisse) entities. We placed on CreditWatch with positive implications:

- Our 'A-/A-2' long- and short-term issuer credit ratings on Credit Suisse AG, the principal operating bank;

- Our 'A-/A-2' long- and short-term ratings on the group's other core subsidiaries;
- Our 'BBB-' long-term issuer credit rating on Credit Suisse Group AG, the group's nonoperating holding company;
- All our issue ratings on all Credit Suisse Group AG's long-term senior unsecured debt and our issue ratings on the subordinated instruments issued by group entities;
- 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; and
- Our 'A-/A-2' long- and short-term RCRs on Credit Suisse Securities (USA) LLC.

At the same time, we lowered our ratings on the AT1 hybrid capital instruments issued by Credit Suisse Group AG to 'C' from 'B' and 'B+'.

Rationale

On March 19, 2023, Credit Suisse and UBS agreed a merger transaction in which UBS is to be the surviving entity. The agreement followed intervention by the Swiss Federal Department of Finance, SNB, and FINMA. Under the terms of the merger agreement all shareholders of Credit Suisse will receive one share in UBS for 22.48 shares in Credit Suisse. Until the merger closes, Credit Suisse will continue to conduct its business as normal.

We consider the UBS group to be materially stronger than the Credit Suisse group. The acquisition will therefore benefit it by stabilizing its franchise, as well as its funding and liquidity. It should also prompt a strengthening of Credit Suisse's governance and risk management standards.

UBS expects the merger to close by the end of June 2023. UBS has announced that UBS Group AG, the group's nonoperating holding company, will take over all the instruments issued by Credit Suisse Group AG and that UBS operating entities will take over all instruments issued by Credit Suisse operating entities. Under the emergency ordinance issued by the Swiss Federal Council, the acquisition will be implemented without gaining the approval of either banks' shareholders. The merger is still subject to the customary closing conditions.

SNB has agreed to provide a significant liquidity line, in addition to the drawdown of up to CHF50 billion provided to Credit Suisse last week. Based on the emergency ordinance, we understand that Credit Suisse and UBS will be able to jointly obtain a liquidity assistance loan of up to CHF100 billion that carries privileged creditor status in bankruptcy. Furthermore, the emergency ordinance also allows SNB to grant Credit Suisse a liquidity assistance loan of up to CHF100 billion, backed by a federal default guarantee. We see these facilities as a significant backstop of the banks' liquidity positions.

As part of the transaction, FINMA has also determined that Credit Suisse's AT1 capital will be written off to zero. The aggregate nominal amount of these instruments is approximately CHF16 billion. As a result, we have lowered our ratings on them to 'C'. In our view, default on these instruments is a virtual certainty and we anticipate lowering the issue ratings to 'D' once implementation of the write-down has been confirmed.

CreditWatch

Our ratings were placed on CreditWatch positive to indicate that we would likely raise them if the proposed merger completes on the terms announced and there are no substantial changes from our operating assumptions. In this case, we anticipate equalizing our ratings on Credit Suisse with

our ratings on UBS, at the holding company and operating company level.

We understand that UBS plans to transfer all issues from Credit Suisse to UBS, with UBS Group AG taking over issuance at the Credit Suisse Group AG level and all instruments issued at the operating entity level being taken over by UBS operating entities.

If the proposed acquisition does not go through as announced, we would reconsider our analysis.

Environmental, Social, And Governance

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

We still see governance factors as a negative consideration in our rating analysis of Credit Suisse. However, if the merger is completed, we expect governance standards to improve to match those of UBS.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
Credit Suisse Group AG		
Junior Subordinated	C	B
Junior Subordinated	C	B+

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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
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-/Watch Pos/A-2	A-/Stable/A-2
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/Watch Pos/A-1	A/--/A-1
Credit Suisse Group AG		
Issuer Credit Rating	BBB-/Watch Pos/NR	BBB-/Stable/NR
Credit Suisse Securities (USA) LLC		
Resolution Counterparty Rating	A-/Watch Pos/A-2	A/--/A-2
Credit Suisse AG		
Senior Unsecured	A-/Watch Pos	A-
Subordinated	BB+/Watch Pos	BB+
Credit Suisse (Singapore Branch)		
Senior Unsecured	A-/Watch Pos	A-
Credit Suisse (USA) Inc.		
Senior Unsecured	A-/Watch Pos	A-
Credit Suisse AG (Guernsey Branch)		
Senior Unsecured	A-/Watch Pos	A-
Credit Suisse AG (London Branch)		
Senior Unsecured	A-/Watch Pos	A-
Senior Unsecured	A-p/Watch Pos	A-p
Subordinated	BB+/Watch Pos	BB+

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Short-Term Debt	A-2/Watch Pos	A-2
Credit Suisse AG (New York Branch)		
Senior Unsecured	A-/Watch Pos	A-
Commercial Paper	A-2/Watch Pos	A-2
Credit Suisse AG (Sydney Branch)		
Senior Unsecured	A-/Watch Pos	A-
Credit Suisse Group AG		
Senior Unsecured	BBB-/Watch Pos	BBB-
Credit Suisse International		
Senior Unsecured	A-/Watch Pos	A-

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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