



Moody's Investors Service

Credit Opinion: Credit Suisse AG

Global Credit Research - 23 Dec 2009

Zurich, Switzerland

Ratings

| Category | Moody's Rating |
|---|----------------|
| Outlook | Negative |
| Bank Deposits | Aa1/P-1 |
| Bank Financial Strength | B |
| Issuer Rating | Aa1 |
| Senior Unsecured -Dom Curr | Aa1 |
| Subordinate MTN | Aa2 |
| Jr Subordinate | *Aa2 |
| Preferred Stock | *Aa3 |
| Commercial Paper | P-1 |
| Other Short Term | P-1 |
| Parent: Credit Suisse Group AG | |
| Outlook | Negative |
| Senior Unsecured MTN | Aa2 |
| Subordinate MTN | Aa3 |
| Jr Subordinate MTN | *Aa3 |
| Other Short Term | P-1 |
| Credit Suisse AG (New York) Branch | |
| Outlook | Negative |
| Bank Deposits | Aa1/-- |
| Senior Unsecured | Aa1 |
| Subordinate | Aa2 |
| Jr Subordinate MTN | *Aa2 |
| Commercial Paper | P-1 |
| Other Short Term | P-1 |

* Placed under review for possible downgrade on November 18, 2009

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Key Indicators

| Credit Suisse AG | [1][2]2008 | 2007 | 2006 | 2005 | 2004 | [3]Avg. |
|------------------------------|------------|---------|---------|---------|--------|----------|
| Total assets (CHF billion) | 1151.67 | 1333.74 | 1226.76 | 1130.76 | 898.59 | [4]7.09 |
| Total assets (EUR billion) | 778.42 | 805.76 | 762.12 | 727.37 | 581.38 | -- |
| Total capital (CHF billion) | 72.84 | 74.40 | 61.66 | 48.59 | 44.00 | [4]13.21 |
| Return on average assets | -0.92 | 0.88 | 0.90 | 0.56 | 0.61 | 0.41 |
| Recurring earnings power [5] | -0.96 | 0.57 | 0.76 | 0.37 | 0.74 | 0.30 |
| Net interest margin | 1.02 | 0.90 | 0.76 | 0.95 | 1.21 | 0.97 |
| Cost/income ratio (%) | 243.34 | 75.40 | 70.62 | 84.80 | 73.70 | 109.57 |
| Problem loans % gross loans | 1.05 | 0.69 | 0.93 | 1.64 | 2.63 | 1.39 |
| Tier 1 ratio (%) | 13.90 | 11.00 | 11.40 | 9.60 | 10.70 | 11.32 |

[1] As of December 31. [2] Statement period in which the bank switched to Basel II accounting framework.
 [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Compound annual growth rate. [5] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of B to Credit Suisse AG, the primary operating unit within Credit Suisse Group AG, which translates into a Baseline Credit Assessment (BCA) of Aa3. The rating derives from the bank's strong capital and liquidity positions, the stable earnings contribution from its wealth management and domestic retail and commercial banking business, and the progress the bank has made in reducing its risk positions and volatility in its investment banking business.

Moody's believes that the probability of government support for Credit Suisse is very high. This results in a two-notch uplift in the bank's senior debt and deposit ratings to Aa1 from the BCA of Aa3. The short-term ratings for Credit Suisse are Prime-1. The Aa2 senior rating for Credit Suisse Group is the rating assigned to the Group's senior unsecured holding company obligations, and is rated one notch below the senior rating of Credit Suisse to reflect the structural subordination inherent in holding company obligations. In 2008 Credit Suisse AG accounted for 98% of the consolidated net income and total assets of Credit Suisse Group.

Credit Strengths

- Leading client franchises with top-tier positions in domestic retail and commercial banking, international wealth management, and global investment banking
- Improved risk profile following the bank's decision in late 2008 to lower its risk appetite and accelerate a reduction in risk positions and volatility within investment banking
- Good risk management discipline, despite a failure to fully capture extreme basis risk and correlation risk in 2008
- Strong capital position with capital ratios in excess of regulatory requirements, albeit with a heavy reliance on hybrid capital instruments
- Long-term commitment in realigning priorities to businesses where the bank enjoys a strategic advantage
- Sound, well managed liquidity position

Credit Challenges

- Heavy earnings reliance on capital markets activities, which tend to be more volatile and less transparent
- Long-term sustainability of lower risk appetite and revised investment banking strategy in the face of inevitable competitive pressures
- Failure of models and stress testing to adequately capture basis and correlation risks, resulting in an over reliance on hedging and diversification strategies which proved ineffective during the financial crisis
- Heavy revenue reliance on private equity gains in asset management business contributes to greater earnings volatility
- The increasing pressure on Switzerland as an offshore private banking centre - with Switzerland agreeing in principle to relax its banking secrecy rules - could have an effect on Credit Suisse's strong position in wealth management

Rating Outlook

The outlook on the long-term ratings for the bank and the group, including the B BFSR, is negative. The negative outlook reflects the uncertainties of the current market environment as well as the challenges posed to the rating if Credit Suisse's risk reduction strategy is not successfully sustained. Moody's believes that over the medium term the increased industry-wide focus on more liquid, client-focused businesses (i.e. on "flow") is likely to pressure margins in those businesses. This will pressure industry participants to once again increase their exposures to more capital-intensive and less liquid businesses.

What Could Change the Rating - Up

Upward pressure on the rating is unlikely in light of the current economic climate, the bank's risk management challenges, and the inherent complexity and opacity of the capital markets businesses upon which the bank is heavily reliant.

What Could Change the Rating - Down

Increased downward pressure on Credit Suisse's ratings could result from: (i) further significant losses on the bank's structured credit exposures and/or on related hedges, (ii) an increased appetite for market or credit risks in contravention of the bank's announced risk reduction program, (iii) adverse wealth management customer flows stemming from continuing negative developments regarding banking secrecy in Switzerland, and/or (iv) an inability to improve operating performance in asset management without relying heavily on private equity gains.

Recent Results and Developments

FINANCIAL RESULTS - THIRD QUARTER 2009

Credit Suisse Group reported 3Q09 consolidated net income of CHF 2.4 billion. Earnings included CHF 93 million in fair value losses (net of hedge) on own debt due to spread tightening; if fair value losses on own debt (and gains in prior quarters) are excluded, pre-tax quarterly results of CHF 2.9 billion (including discontinued operations) were up from second quarter's CHF 2.6 billion as well as first quarter's CHF 2.3 billion. Pre-tax earnings excluding fair value marks on own debt were CHF 2.0 billion in the Investment Bank,

CHF 867 million in Private Banking, and CHF 311 million in Asset Management, whereas the Corporate Center suffered a loss of CHF 480 million.

The Investment Bank had CHF 5.3bn of revenues excluding fair value marks on own debt, down from 6.3bn in the second quarter and 6.1bn in the first quarter. While the bank continued to benefit from market share gains in some areas, declining margins, especially in fixed income, as well as seasonal factors contributed to the decline in revenues. These trends are consistent with Moody's view that as competitive pressures increase over the medium term the bank will be challenged to sustain this performance without increasing its risk profile. Management believes that higher volumes and increased market share will help to offset this pressure. Credit Suisse was able to more than offset the decline in IB revenues during the quarter with a reduction in compensation accruals. As a result, the bank's quarterly compensation to revenue ratio declined to 40%. Management explained that its compensation accrual is based on an economic profit model, recognizing the risk adjusted profitability overall and of each business, as well as the industry environment. However, we believe that the sustainability of a lower compensation ratio depends in part on whether the bank's competitors take a similar approach to compensation.

The bank reported that it continued to reduce risk positions during the quarter. Average 1-day VaR (at 99%) in the Investment Bank was down 25% from 2Q and down 44% from a year ago. Similarly, risk-weighted assets in the IB were down 6% and 34%, while total bank-wide risk-weighted assets were down 5% and 28%, over the same time periods. We consider the continued risk reduction to be positive, especially in the face of declining margins.

Private Banking results included CHF 723 million pre-tax in Wealth Management and CHF 144 million pre-tax in Corporate & Institutional Clients. In Wealth Management, net new asset flows were positive. However, profits in Wealth Management remain under some pressure due to lower asset values and reduced customer transaction volumes. In Corporate & Institutional Clients, lower earnings reflect losses on loan portfolio hedges and net interest margin compression. Loan loss provisions were down from the second quarter, although they are still well above last year's levels. While we expect some further deterioration in the corporate loan book in response to weakness in the Swiss economy, given the conservative underwriting in residential and commercial mortgage lending, and the low concentrations in corporate lending in this segment, we expect that any credit deterioration in this segment will be manageable.

Asset Management remains a challenge for Credit Suisse. Much of the segment's profit in the quarter reflected gains on the bank's stake in Aberdeen received as part of the sale of its traditional asset management business. Excluding that gain, the segment had a pre-tax profit of CHF 104 million during the quarter. However, even those results included CHF 42 million in gains on securities previously purchased from money funds, and CHF 97 million in unrealized investment-related gains (in private equity and credit strategies). Excluding such gains, the business would have reported a pre-tax loss of CHF -35 million. Further work is needed to improve the profitability of the remaining asset management business. As currently structured, profits in this business remain heavily reliant on private equity gains, limiting its earnings stability. The bank's principal investments (including private equity) totaled CHF 3.7 billion at quarter-end.

Credit Suisse's credit profile continues to be supported by a strong capital position. Tier 1 capital ratio ended the quarter at 16.4% (Basel 2), up from 13.3% at year-end 2008 and 10.0% at year-end 2007. However, Credit Suisse's Tier 1 ratio remains heavily reliant on hybrid capital instruments; hybrid capital represented 32.9% of Tier 1 at September 30, 2009, down only slightly from 35% at year-end 2008. At September 30, 2009, Moody's Equity was approximately 12.7% of Basel 2 risk-weighted assets, up from 8.6% at year-end 2008 and 9.8% at year-end 2007. (Moody's Equity consists of tangible common equity before unrealized gains/losses on securities held for sale and cash flow hedges, less tax-effected gains on debt, plus Moody's hybrid equity credit.)

Credit Suisse's liquidity position remains sound. Although the bank's cash position declined modestly during the quarter, short-term borrowings, due to banks, and wholesale CDs also declined. As a result, the bank's cash position equaled approximately 92% of short-term borrowings (including wholesale CDs and due to banks), down from its peak of 118% in the first quarter, but largely unchanged from year-end 2008. At the same time, total liquid assets exceeded total market funds by 6.0% of total assets, up from 5.7% in the second quarter and 4.9% at year-end. Credit Suisse reported a 2.6% reduction in total assets in the quarter, to CHF 1.06 billion, stemming from reductions in its cash position as well as smaller trading and repo books, and reported a 6% decline in its level 3 assets.

ACCOUNTING EFFECTS

In order to ensure comparability across banks and over time and to determine the true economic substance of reported results, Moody's continues to adjust for certain aspects of accounting conventions. This is particularly relevant for Credit Suisse as regards fair value gains or losses on own debt.

During the financial crisis Credit Suisse's results benefited significantly from the positive impact of applying the fair-value option on the bank's own liabilities. During 2008 Credit Suisse Group recognized gains of CHF 5.0 billion on the fair value of its own debt, after recognizing CHF 1.2 billion in 2007. In the first quarter of 2009 the bank recognized an additional gain of CHF 670 million. Moody's analysis generally excludes the effects of such gains in our assessment of earnings and capital adequacy, inasmuch as we believe that the resulting reductions in the value of an issuer's debt due to the credit deterioration of that issuer can give a misleading view of the bank's true credit metrics.

In the second and third quarters of 2009, credit spread tightening led Credit Suisse to report losses on the fair value of its own debt. Moody's treats such a loss similar to the way it treats gains; the loss is excluded in our assessment of earnings. Similarly, the loss reduces the bank's cumulative gains on own debt, thereby reducing the size of Moody's deduction from capital for this item.

SALE OF ASSET MANAGEMENT BUSINESS TO ABERDEEN

At the end of 2008, Credit Suisse agreed to sell most of its traditional asset management/funds business to Aberdeen Asset Management in exchange for a 24.9% stake in Aberdeen, at the time valued at CHF 381 million. The sale, completed in July 2009, comprises CHF 75 billion of assets under management and represents the majority of Credit Suisse's funds business in Europe (but only includes a small number of Swiss-domiciled funds), the US and Asia Pacific. Credit Suisse will continue to operate its funds business in Brazil and through its various joint ventures in other jurisdictions. Credit Suisse also retains within its asset management segment an asset allocation business (Multi-asset class solutions) and an alternative investment strategies business.

Moody's views this transaction as favorable as Credit Suisse looks to turn around its loss-making asset management operations. Aberdeen Asset Management has the experience and scale to maximize the potential for Credit Suisse's GI business, whilst Credit Suisse can focus resources on its capabilities in the Swiss domestic market and alternative investments. However, Credit Suisse's remaining asset management business still faces challenges, with a cost structure that appears excessive given the current size of the business and revenues that are heavily reliant on private equity gains. Further work is needed to improve the profitability of this business and reduce its earnings volatility.

SETTLEMENT WITH THE UK FSA OVER MIS-PRICING OF ABS

In August 2008, the UK operations of Credit Suisse were fined GBP 5.6 million in relation to the mis-pricing of certain asset-backed securities, including ABS CDOs, in the structured credit group of its investment banking division. Although this raises questions regarding the bank's internal control and processes, Moody's notes that the bank was quick to announce it had identified the mismarking and pricing errors, swift in disclosing the effect on the group's financials to the wider market, and fully cooperative with the FSA in investigating the issue.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Credit Suisse's ratings are as follows. The scorecard factors discussed below reference the consolidated financials of Credit Suisse Group AG. In 2008 Credit Suisse accounted for 98% of the net income and total assets of Credit Suisse Group AG.

Bank Financial Strength Rating

Moody's assigns a BFSR of B to Credit Suisse. The rating is underpinned by the bank's strong capital and liquidity positions as well as the relatively stable earnings derived from its robust franchises in Swiss retail and commercial banking and international wealth management. The rating also reflects the bank's significant reliance on capital markets activities. While the bank possesses a top tier global investment banking franchise, risk management errors and high leverage have led to greater earnings volatility than expected. In response to this, the bank has bolstered its capital position and is taking steps to strengthen its risk management processes and implement a risk reduction program to reduce risk positions and volatility in its investment banking business.

As a point of reference, the assigned BFSR is one notch above B- outcome of Moody's bank financial strength scorecard (incorporating the adjustment for profitability described below). The outlook for the B BFSR is negative since 5 December 2008.

QUALITATIVE FACTORS (50%)

Factor 1: Franchise Value

Trend: Neutral

Credit Suisse has powerful client franchises in most of its core businesses. We view the wealth management business of the private banking division as a core strength. A solid brand and stable track record have helped sustain positive net new money flows, which totalled CHF 15.0 billion in the first half of 2009, growing 150% from 2008 and flowing from a broad base of both Swiss and international client bases.

Credit Suisse's commercial and retail bank, which has the second highest market share in the Swiss market, has continued to deliver a strong cash flow and earnings stream for the bank. Diversification of revenues and earnings is very strong across product lines; however, the decline in investment banking revenues last year left the bank more heavily reliant on earnings from Switzerland, leaving the bank more susceptible to adverse cyclical trends in that market. In 2008 Switzerland accounted for 85% of group net revenues and more than 100% of group profits; in the first half of 2009, Switzerland was 25% of net revenues and 38% of profits.

Moody's sees no signs of a decline in the franchise value of Credit Suisse private banking business. Instead, we believe the bank may be able to strengthen its market shares as competitors suffer with the aftermath of the current credit crisis. While the changes to bank secrecy laws currently underway in Switzerland could potentially undermine this trend to the extent that it reduces the incentives for potential customers to seek out Swiss wealth managers, we note that these developments are happening simultaneously at most offshore banking centers around the world, minimizing the chances that Swiss banks are put at any competitive disadvantage. Furthermore, Credit Suisse has invested considerably in its on-shore wealth management activities in order to offset any reduction in the appeal of off-shore banking.

Credit Suisse also possesses a top tier global investment banking franchise. However, despite its strong market shares and global reach, this business has contributed significantly to the bank's earnings volatility over the past several years (both positively and negatively), limiting its contribution to the bank's overall franchise value.

In the aftermath of the crisis Credit Suisse's investment bank has preserved or even enhanced its market-leading positions in global rates and foreign exchange, cash equities, prime services and derivatives. The repositioning of the investment bank following Credit Suisse's new strategy announcement in December 2008 is intended to allow this business to maintain a competitive advantage in its existing strong market positions, whilst at the same time releasing capital and resources and reducing volatility by exiting non-key product areas. However, as noted above, we believe that over the medium term the increased industry-wide focus on more liquid, client-focused businesses (i.e. on "flow") is likely to pressure margins in those businesses. This will pressure industry participants to once again increase their exposures to more capital-intensive and less liquid businesses.

After a number of loss-making quarters in Credit Suisse's asset management division, Moody's would expect to see this business return to profitability in the medium-term, as the bank re-scales the business following the sale of the traditional funds businesses to Aberdeen Asset Management. Nonetheless, this business remains challenged, and we see its franchise value as more limited given its more limited scale and heavy reliance on private equity gains to generate profits.

Credit Suisse scores a B for franchise value in Moody's bank financial strength scorecard.

Factor 2: Risk Positioning

Trend: Neutral

In Moody's view, the current crisis has significantly tested Credit Suisse's risk positioning. While some elements have held up well, in other areas the bank's risk positioning has been found wanting.

Prior to the start of the financial crisis, the bank had built up sizeable exposures to leveraged loans, U.S. residential real estate/RMBS, and commercial real estate/CMBS. However, the hedges it put in place provided significant protection on leveraged loans, while management was more pro-active and faster than many of their peers in reducing its U.S. residential real estate exposures. Nonetheless, the willingness to let such exposures to grow so large revealed a sizeable risk appetite, and the protection provided by hedges was by no means complete.

Credit Suisse also experienced a significant control failure near the start of the crisis, which not only raises concerns about the effectiveness of the bank's controls, but also may have even hindered its exit from certain problem asset classes. As noted above, in August 2008, the UK operations of Credit Suisse were fined GBP 5.6 million in relation to the mis-pricing of certain asset-backed securities, including ABS CDOs, in the structured credit group of its investment banking division. The bank was quick to announce it had identified the mismarking and pricing errors, swift in disclosing the effect on the group's financials to the wider market, and fully cooperative with the FSA in investigating the issue. The bank has also taken steps to correct the problems.

A second major control issue was highlighted by Credit Suisse's December 2009 \$536 million settlement with U.S. governmental authorities over U.S. dollar payments involving parties subject to U.S. sanctions. The transactions involved took place between 2002 and 2007. Credit Suisse decided to exit the business in question in 2005, and by 2007 had terminated its business with all sanctioned parties. As with the ABS CDO mis-pricing matter, Credit Suisse has similarly taken steps to address this control issue, and has enhanced its procedures to prevent practices of this type for occurring in the future. Nonetheless, the seriousness of these control issues remains a concern for Moody's.

We see no issues related to ownership, organizational complexity and insider- or related-party risks that should be of particular concern from a credit perspective.

It remains Moody's general conviction that credit risk concentrations, including those in the financial services sector, may pose a serious challenge for banks' credit quality. Credit Suisse has substantial trading business with financial institutions. As such, its exposure to the financial services sector is significant, although this exposure is concentrated among highly rated institutions. Regarding individual borrower exposures, while the bank's target hold positions (i.e. those positions retained in its banking book) are generally quite conservative, the bank's tolerance for concentration risk in its underwriting activities is considerably greater, as revealed by the substantially larger exposures in leverage finance and commercial real estate to which it was exposed when the financial crisis prevented the bank from selling down those commitments. As a part of its risk reduction strategy the bank has tightened internal limits on a range of exposures. Nonetheless, Credit Suisse's significant participation in these market segments means that a change in sentiment may entail a detrimental impact for the bank's concentration risks, cost of credit and earnings.

The bank runs trading books in equity, credit, interest-rate, commodity, foreign-exchange and related derivatives products. While the bank has reported that it has significantly reduced its proprietary trading activities, Moody's believes that even in conjunction with customer-driven transactions, trading may expose the bank to potentially significant risks, related to individual names, transactions or sectors or to changes in volatilities, correlations or liquidity. Moody's understands stress testing is an important component of the bank's risk management framework, with the use of economic risk capital measures simulated in a variety of stressed scenarios. However, both the hedging losses in the second quarter of 2008 and the sizeable losses experienced in proprietary trading in the fourth quarter revealed that the bank's models and stress tests had failed to adequately capture basis risk and correlation risk under extreme scenarios, resulting in an over reliance on hedging and diversification strategies which proved ineffective during the financial crisis. In response, the bank has implemented a risk reduction program, significantly reducing and/or restructuring the size of its proprietary trading activities. The bank has also made enhancements to risk measurement and risk monitoring, and as noted above has tightened internal limits in a number of areas.

In the current context of market turmoil, Credit Suisse has built a strong liquidity position, with reduced reliance on wholesale funding and enlarged liquidity pools to cover short-term liabilities. Additionally, the bank's liquidity management system has the capacity to deal with the challenges inherent in managing the funding requirements for a bank the size and complexity of Credit Suisse.

Moody's will continue to monitor Credit Suisse's risk profile very closely; although the recent risk reduction programme has led to lower volatility and risk concentrations within the bank, Moody's expects that Credit Suisse is likely to face pressures to return to a more aggressive strategy in the future.

The score for Credit Suisse's risk positioning is C in Moody's bank financial strength scorecard.

Factor 3: Regulatory Environment

Trend: Neutral

All Swiss banks are subject to the same score on the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. According to Moody's country regulatory environment assessment Switzerland has a fully developed regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

The scorecard shows a score of A for the overall operating environment, a factor common to all Swiss banks. However, Credit Suisse has a significant amount of operations outside of Switzerland. Therefore, Moody's adjusts this score based upon the geographic distribution of Credit Suisse's earnings and assets. On this blended basis, Moody's assigns a B+ score for operating environment.

QUANTITATIVE FACTORS (50%)

Factor 5: Profitability

Trend: Improving

After reporting extraordinarily strong profits in 2006 and strong results in 2007, the financial crisis severely eroded Credit Suisse's profitability in 2008. In addition to valuation writedowns on a variety of structured exposures, the bank suffered sizable losses in the fourth quarter of 2008 on its proprietary trading portfolio due to basis risk and correlation risk. While we take some comfort from the earnings strength of Credit Suisse's more stable business segments, as well as the revenues from its capital markets flow businesses, the bank's recent results clearly revealed a vulnerability to earnings volatility not previously anticipated.

Credit Suisse currently scores an E for profitability in the BFSR scorecard, based on the bank's poor financial performance in 2008, with a pre-provision loss from continuing operations of CHF -13.0 billion and a net loss of CHF -8.1 billion. (Because the bank's risk-weighted assets (RWA) are reported under Basel 2 beginning in 2008, the BFSR scorecard does not calculate a three-year average for ratios that use RWA.) However, it is important to note the bank's strong profitability performance in the years preceding this loss, with pre-provision income as a percentage of Basel I risk-weighted assets at 2.8% in 2007, and 5.7% in 2006, and a net income return on RWA of 2.5% in 2007 and 4.7% in 2006. Coupled with the 2008 loss, these ratios would put Credit Suisse's profitability score at C+ on a 3-year average basis. This adjustment also moves the score for Financial Factors from a C- to a B-, and moves the aggregate scorecard-implied BFSR from a C+ to a B-.

Recent results show a return to profitability for the bank, after losses during three out of four quarters in 2008. Moody's notes the strength that Credit Suisse displays in protecting and preserving its revenue streams, notably in private banking, with stable cash flow and earnings streams in wealth management and commercial and retail banking. All divisions have returned to profitability, although asset management remains extremely weak.

While profits in investment banking have been strong, Moody's believes that as competitive pressures increase over the medium term the bank will be challenged to sustain this performance without increasing its risk profile. The bank's decision to lower its risk appetite and accelerate a reduction in risk positions and volatility within investment banking is intended to avoid the substantial volatility of earnings from which the bank has suffered over the last three years. However, as markets strengthen, we believe that management may have to resist potentially significant shareholder and competitive pressures to accomplish this goal. Moody's takes some comfort from the fact that management has reduced or modified some of the bank's stated profitability targets, which may make it easier to resist the pressure to increase risk.

Factor 6: Liquidity

Trend: Neutral

Credit Suisse, as the second largest commercial bank in Switzerland and the second largest private bank globally, retains a very large and stable base of retail and private customer deposits. Average customer deposits exceeded loans by a factor of 1.2 over the course of 2008 and 2009, and by a factor of 1.3 over the past three years.

Credit Suisse's liquidity management is based on a prudent liquidity model which incorporates a severe stress scenario and it has maintained its liquidity well in excess of its minimum coverage level. Over the past year, in conjunction with balance sheet de-leveraging and capital raising initiatives, the bank has been able to take advantage of its well diversified funding capabilities to strengthen its liquidity profile. However, this has involved a cost, and management has to weigh the cost of holding the extra liquidity insurance against the impact on profits. Moody's believes the liquidity risk insurance is prudent, and the cost necessary. We expect that while Credit Suisse may modestly reduce its excess liquidity position, its overall liquidity profile should remain robust.

In this regard, at the end of the third quarter the bank's market funds reliance ratio (Market funds - Liquid Assets) % Total Assets, at -5.98%, was an improvement from year-end 2008 as well as the three-year average. It is important to note that a significant portion of the bank's market funding is long-term. This reduces the bank's near-term refinancing risk and strengthens its liquidity profile versus peers with a shorter dated liability structure. At September 30, total market funds excluding long-term debt maturing in over one year less liquid assets equaled -18.76% of total assets, whereas the three-year average for this adjusted ratio was -13.63%. The positive direction of both of these ratios highlights management's efforts to strengthen Credit Suisse's liquidity over the past year.

Credit Suisse scores an A- for liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

Despite the losses suffered in 2008, Credit Suisse was able to strengthen its capital position through a combination of capital issuance and deleveraging. We consider the actions taken by the bank to strengthen its capital position as an important offset to the losses the bank suffered in 2008. Nonetheless, much of the improvement has been due to an increased reliance on hybrid capital instruments, taking advantage of a lessening of the restrictions imposed by Swiss regulators on the inclusion of hybrid capital in Tier 1. Moody's also notes that the implementation of an incremental default risk charge on market risk positions according to recent revisions to the Basel II accord may lead to a material impact on Credit Suisse's regulatory capital ratios.

At 30 September 2009, the group's Tier 1 ratio stood at 16.4% (Basel 2), up from 13.3% at year-end 2008 and 10.0% at year-end 2007 (11.1% Basel 1). However, management only targets a Tier 1 ratio of 12.5%; it is unclear to what extent the bank will maintain its capital position at such a substantial margin above management's target. The Tier 1 ratios at the group's principal operating

subsidiary, Credit Suisse, were not appreciably different, at 13.9% (Basel 2) at 2008 and 9.6% at year-end 2007 (11.0% Basel 1).

At 30 September 2009, Moody's estimates that Credit Suisse's tangible common equity before unrealized gains/losses on securities held for sale and cash flow hedges, less tax-effected gains on debt, and including Moody's hybrid equity credit, was approximately 12.7% of Basel 2 risk-weighted assets, up from 8.6% at year-end 2008 and 9.8% at year-end 2007.

Moody's considers the capitalisation of Credit Suisse to be strong given its overall profile. The capital adequacy score of A in the bank financial strength scorecard reflects this.

Factor 8: Efficiency

Trend: Neutral

In a global comparison, operating efficiency is one of Credit Suisse's weak points. The weak efficiency metrics are to a large part explained by the bank's business mix, in which high-cost businesses, such as investment banking and asset management, weigh heavily. The recent market conditions exacerbate this weakness, and the reported efficiency ratio deteriorated significantly in 2008. However, even excluding Credit Suisse's poor financial performance in 2008, the bank maintained a modest level of efficiency in preceding years, with a cost-to-income ratio usually ranging between 70% and 80%.

The investment banking model relies heavily upon a variable compensation model, with a high degree of expense flexibility being an important offset to the volatility of capital markets revenues. But while timely reductions in compensation and even non-compensation expense can help offset the greater volatility of capital markets-driven revenues, the experience of 2008 highlights the limits of such cost flexibility. Management has been very focused on reducing the bank's cost base, and ensuring it becomes more flexible in reacting to future market conditions. Headcount has been reduced by 11% since the end of 2008, with most of the reductions in the investment bank, and care been taken to ensure that talent is retained in the bank's core businesses.

Nonetheless, the bank has also recently revised its compensation plan, including an increase in the fixed component of compensation for many employees. If not offset by more stable and predictable revenues, increasing the fixed component of compensation has the potential to reduce earnings stability. This could be a credit negative.

Credit Suisse scores an E for efficiency.

Factor 9: Asset Quality

Trend: Neutral

Credit Suisse has consistently maintained a low level of problem loans. Problem loans as a percentage of gross loans were 1.0% at 30 September 2009, down from 1.15% at 31 December 2008, but still up from 0.8% a year previous; however, given the wider development in the credit cycle, this low increase is admirable relative to some of the bank's peers.

Nonetheless, Credit Suisse has some remaining concentrations in commercial mortgages and leveraged finance (including term financing provided for loan sales) and in private equity. Most of the exposures in these segments are accounted for under fair value accounting, and thus many have been subject to substantial fair value marks. Problem loans are reported net of such marks, and as such may not always give the truest picture of the quality of the bank's underwriting. However, the bank also maintains hedges against many of these exposures, either on an individual or a macro basis. Although the past year has demonstrated that the effectiveness of such hedges has been less than perfect, they have nonetheless provided some significant protection for the bank and afforded it greater ability to reduce its exposures. In that regard, the bank has been aggressive in reducing its exposures through outright sales, and has not reclassified assets held for trading into other accounts in order to shelter its earnings from fair value marks.

The bank currently scores a B+ for asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns global local currency (GLC) deposit ratings of Aa1/Prime-1 to Credit Suisse. The outlook for the Aa1 senior unsecured rating is negative since 5 December 2008.

The Aa1 GLC deposit rating is supported by Credit Suisse's Baseline Credit Assessment of Aa3 and Moody's assumption of a very high likelihood of systemic support. The systemic support assessment reflects Credit Suisse's important roles as a global capital markets counterparty, a major deposit-taker in the Swiss banking market, and its relevance for the proper functioning of the payment system. Based upon Credit Suisse's Baseline Credit Assessment of Aa3 and Switzerland's Aaa sovereign rating, the bank receives a two-notch uplift from its Baseline Credit Assessment, bringing the GLC rating to Aa1.

Moody's considers Switzerland to be a medium support country based on its history of deposit defaults and the importance and strength of the banking system. When assessing the probability of systemic support to individual banks, key factors are the importance of the bank to the payment systems and thereby the stability of the overall financial system and also how important the bank is locally. In this regard, important national institutions such as Credit Suisse, the Swiss Raiffeisen group and UBS are perceived as enjoying a very strong probability of systemic support given their size and position in the Swiss banking system. During the crisis the country has taken considerable action to support its financial institutions.

Notching Considerations

Following the publication in November 2009 of Moody's revised methodology for rating bank subordinated capital instruments ("Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt"), Moody's placed under review for possible downgrade the Aa2-rated junior subordinated debt and Aa3-rated preferred stock issued or backed by Credit Suisse AG, as well as the Aa3-rated junior subordinated debt and A1-rated preferred stock issued or backed by Credit Suisse Group AG. The review will consider the terms of those capital instruments as well as the extent to which systemic support should be excluded from their

ratings, consistent with the revised methodology. The senior subordinated debt of Credit Suisse AG and Credit Suisse Group AG continue to be rated one notch below the respective senior unsecured debt ratings.

Foreign Currency Deposit Rating

The Aa1/Prime-1 foreign currency deposit ratings of Credit Suisse are unconstrained given that Switzerland has a country ceiling of Aaa.

Foreign Currency Debt Rating

The Aa1/Prime-1 foreign currency debt ratings of Credit Suisse are unconstrained given that Switzerland has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Ratings

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Credit Suisse AG

| Rating Factors [1] | A | B | C | D | E | Total Score | Trend |
|---|--------|------------|----|----|---------|----------------|------------------|
| Qualitative Factors (50%) | | | | | | B- | |
| Factor: Franchise Value | | | | | | B | Neutral |
| Market Share and Sustainability | | x | | | | | |
| Geographical Diversification | x | | | | | | |
| Earnings Stability | | | x | | | | |
| Earnings Diversification [2] | | | | | | | |
| Factor: Risk Positioning | | | | | | C | Neutral |
| Corporate Governance [2] | | | | | | | |
| - Ownership and Organizational Complexity | -- | -- | -- | -- | -- | | |
| - Key Man Risk | -- | -- | -- | -- | -- | | |
| - Insider and Related-Party Risks | -- | -- | -- | -- | -- | | |
| Controls and Risk Management | | | x | | | | |
| - Risk Management | | x | | | | | |
| - Controls | | | | x | | | |
| Financial Reporting Transparency | | x | | | | | |
| - Global Comparability | x | | | | | | |
| - Frequency and Timeliness | x | | | | | | |
| - Quality of Financial Information | | | x | | | | |
| Credit Risk Concentration | -- | -- | -- | -- | -- | | |
| - Borrower Concentration | -- | -- | -- | -- | -- | | |
| - Industry Concentration | -- | -- | -- | -- | -- | | |
| Liquidity Management | x | | | | | | |
| Market Risk Appetite | | | x | | | | |
| Factor: Operating Environment | | | | | | A | Neutral |
| Economic Stability | x | | | | | | |
| Integrity and Corruption | x | | | | | | |
| Legal System | x | | | | | | |
| Financial Factors (50%) | | | | | | C- | |
| Factor: Profitability | | | | | | E | Improving |
| PPP % Avg RWA - Basel II | | | | | -5.51% | | |
| Net Income % Avg RWA - Basel II | | | | | -2.83% | | |
| Factor: Liquidity | | | | | | A- | Neutral |
| (Mkt funds-Liquid Assets) % Total Assets | | - 3.38% | | | | | |
| Liquidity Management | x | | | | | | |
| Factor: Capital Adequacy | | | | | | A | Neutral |
| Tier 1 ratio (%) - Basel II | 13.29% | | | | | | |
| Tangible Common Equity / RWA - Basel II | 8.55% | | | | | | |
| Factor: Efficiency | | | | | | E | Neutral |
| Cost/income ratio | | | | | 109.31% | | |
| Factor: Asset Quality | | | | | | B+ | Neutral |
| Problem Loans % Gross Loans | | 0.99% | | | | | |
| Problem Loans % (Equity + LLR) | 5.71% | | | | | | |
| Lowest Combined Score (15%) | | | | | | E | |
| Economic Insolvency Override | | | | | | Neutral | |
| Aggregate Score | | | | | | C+ | |
| Assigned BFSR | | | | | | B | |

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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