

Research Update:

Credit Suisse And Core Subsidiaries 'A+' Long-Term Ratings Affirmed On Bank Criteria Change; Outlook Negative

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Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have affirmed our 'A+' long-term ratings on Credit Suisse AG and its core subsidiaries and our 'A' rating on the group's holding company, Credit Suisse Group AG.
- We have lowered the issue ratings on the non-deferrable subordinated debt securities of Credit Suisse and its core subsidiaries to 'BBB+' from 'A', and those of Credit Suisse Group to 'BBB' from 'A-'. We have lowered the issue ratings on the hybrid capital securities of Credit Suisse and its core subsidiaries to 'BBB' from 'BBB+', and those of Credit Suisse Group to 'BBB-' from 'BBB'.
- Other rating actions on debt issues and subsidiaries are listed below.
- We base our rating on Credit Suisse on its 'a-' anchor and our view of its strong business position, adequate capital and earnings, moderate risk position, average funding, and adequate liquidity, as our criteria define these terms. The long-term rating on Credit Suisse is two notches higher than the SACP, reflecting our view of Credit Suisse's high systemic importance in Switzerland and our assessment of the Swiss government as supportive to its banking industry.
- The negative outlook factors in potential weakening in Credit Suisse's business position and the possibility that Credit Suisse will not improve capital adequacy in the next two years owing to insufficient retained earnings.

Rating Action

As we previously announced, on Nov. 29, 2011, Standard & Poor's Ratings Services affirmed its 'A+' long-term counterparty credit rating on Credit Suisse AG (Credit Suisse) and its core subsidiaries (see Ratings List below). We also affirmed the 'A' long-term counterparty credit rating on the group holding company, Credit Suisse Group AG. The outlooks on the long-term ratings on all core group members and the holding company are negative.

We lowered the issue ratings on the non-deferrable subordinated debt securities of Credit Suisse and its core subsidiaries to 'BBB+' from 'A', and those of Credit Suisse Group to 'BBB' from 'A-'.

We lowered the issue ratings on the hybrid capital securities of Credit Suisse and its core subsidiaries to 'BBB' from 'BBB+', and those of Credit Suisse Group to 'BBB-' from 'BBB'.

Rationale

We base our rating on Credit Suisse on its 'a-' anchor, and our view of its "strong" business position, "adequate" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. We also factor in our view of Credit Suisse's high systemic importance in Switzerland.

Based on the above bank-specific adjustments--business position, capital and earnings, risk position, funding, and liquidity--we assess Credit Suisse's stand-alone credit profile (SACP) at 'a-'.

Our bank criteria use the economic risk and industry risk scores from our Banking Industry Country Risk Assessment (BICRA) methodology to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Switzerland is 'a'. The BICRA score includes our evaluation of economic risk. We assess the economic risk for Credit Suisse based on our calculation of the weighted average of its regulatory gross credit exposure in the countries and region in which it operates as follows: 35% in Switzerland, 30% in Europe, 30% in the U.S. and the rest of the Americas, and 5% in Asia. Our economic risk score is '3' for the U.S. and we estimate scores of '3' for Europe and '4' for Asia. The 'a-' anchor for Credit Suisse is consequently lower than the 'a' anchor for a bank operating only in Switzerland, which has an economic risk score of '1' and an industry risk score of '2'.

We view Switzerland as a highly diversified and competitive economy, benefiting from one of the highest levels of GDP per capita in the world and robust government finances. We believe Switzerland has a conservative risk and lending culture, which has accompanied recent moderate growth of house prices and loan portfolios. The Swiss banking industry is supported by its sizable and stable customer deposit base. Swiss banks have not relaxed domestic credit standards in recent years, thanks to sound earnings potential from core products. We consider Swiss regulatory standards to be more stringent than in other developed countries.

We regard Credit Suisse's business position as "strong," based on its:

- Leading franchise in global private banking and wealth management,
- Adequate position in global investment banking,
- High concentration of revenues in securities origination, sales and trading,
- Strong position in commercial banking in Switzerland,
- High geographic diversification and good diversification by business line, and
- Successful management and business strategy.

Credit Suisse's global asset and wealth management businesses generate reliable revenues and profits. These businesses are highly diversified

geographically. We expect them to grow in Asia, Russia, and Brazil, in proportion to Europe and the U.S. over the next several years. Recent tax agreements between Switzerland and important trade partners such as Germany and the U.K. are chipping away at Swiss banking secrecy and may dent the franchise of Credit Suisse and other Swiss private banks, but in our opinion Credit Suisse should be able to maintain its leading market position owing to its global expertise and integrated product offering. Credit Suisse is a leading global investment bank, but the industry has volatile revenues linked to the cycles of the capital markets. In response to the difficult market environment and toughening regulation, Credit Suisse announced in the fourth quarter of 2011 its intention to exit certain lines within fixed-income and securitized products.

Our assessment of Credit Suisse's capital and earnings as "adequate" reflects its announced objective to build capital via retained earnings and reduce the risk-weighted assets (RWA) of its investment banking division. We understand that Credit Suisse's targets are in response to standards of the Swiss Financial Market Supervisory Authority (FINMA) for capital adequacy. FINMA also will require Credit Suisse (and all Swiss banks) to meet the Basel III capital requirements.

We believe Credit Suisse's risk-adjusted capital (RAC) ratio before diversification benefits will increase to between 7% and 8% in the next 18 to 24 months owing to increased total adjusted capital (TAC, the numerator of our RAC ratio) and reduced RWA. The higher TAC should come from retained earnings, lower deductions of tax loss carryforwards and minority interests of private equity investments, and an increase in hybrid capital securities that we include in TAC. Credit Suisse's earnings balance generally steady returns from global asset and wealth management and domestic commercial banking with volatile returns from global investment banking, particularly in securities sales and trading. For instance, investment banking contributed 68% of total high consolidated pretax income in the favorable first quarter of 2011, but only 2% of consolidated pretax income in the second and third quarters, when capital market conditions progressively soured. Credit Suisse's third-quarter 2011 pretax earnings adjusted for Swiss franc (CHF) 1.277 million in fair value gains on its debt were negative.

Our risk position assessment for Credit Suisse is "moderate". Credit Suisse is vulnerable to changes in the value and liquidity of the inventory required to make markets in securities and derivatives. It is also exposed to risks in securities underwriting and private equity, and litigation risks in its investment banking and wealth management lines. In the third quarter of 2011 it recorded CHF519 million in net litigation provisions related to its private banking business in the U.S. and Germany. Credit Suisse has a good track record in credit risk management, in our view. Annual credit loss provisions have averaged 10 basis points on average loans since 2003.

Credit Suisse's funding is "average" and its liquidity position "adequate," in line with industry peers' positions, in our opinion. Its CHF315 billion of customer deposits (excluding interbank deposits) on Sept. 30, 2011--collected

in part through its global private banking business--exceeded total consolidated loans of CHF226 billion on the same date. The resulting ratio of loans to customer deposits of 72% compares well with international peers'. Still, the significant weight of investment banking in Credit Suisse's business mix brings risks not captured by this ratio, and renders Credit Suisse, along with the entire global corporate and investment banking industry, vulnerable to a loss of confidence in the wholesale funding markets.

The long-term rating on Credit Suisse is two notches higher than the SACP, reflecting Credit Suisse's high systemic importance in Switzerland (Swiss Confederation, unsolicited AAA/Stable/A-1+) and our assessment of the Swiss government as supportive to its banking industry.

The 'BBB+' and 'BBB' ratings on the non-deferrable subordinated debt of Credit Suisse and Credit Suisse Group, respectively, are one notch below the SACPs of the two entities. This reflects the evolving future legislative framework in Switzerland that, in our opinion, likely will provide the Swiss authorities with wide-ranging bail-in and transfer powers as part of a resolution regime for failing systemically important banks.

The 'BBB' and 'BBB-' ratings on the hybrid capital securities of Credit Suisse and Credit Suisse Group, respectively, are two notches below the SACPs of the two entities. Under our methodology, the issue ratings on hybrid capital securities are linked to the issuer's stand-alone creditworthiness. The long-term rating on Credit Suisse incorporates potential future government support that we do not factor into the ratings on its hybrid capital instruments.

Outlook

The negative outlook on Credit Suisse reflects potential weakening in its business position and its capital and earnings.

Pressures on private banking in Switzerland and other private banking centers due to governments' more aggressive policies on cross-border taxation and the toughening regulatory and capital markets environment for investment banking could weaken Credit Suisse's business position over time. Several factors may combine to limit profits in the fourth quarter of 2011 and 2012: lower volumes in securities sales and trading, decreased business flows due to the economic slowdown, the potential cost of reducing RWA in investment banking, and the direct and indirect cost of new financial regulations. We estimate that revenues from securities sales and trading will decline 20% for the global investment banking industry in 2012. Faced with the difficult operating landscape, Credit Suisse in 2011 initiated several measures to tighten overhead costs that should show results in 2012. The challenge for Credit Suisse, in our opinion, will be to reduce its risk position while maintaining sufficient market presence to compete with larger players and provide a full range of high-quality investment bank services to clients in its other divisions.

We could lower the ratings on Credit Suisse if it were unable to strengthen its balance sheet in line with our expectations, either by not retaining sufficient earnings, or by falling short of its objective to reduce RWA in investment banking over the next one to two years.

We could change the outlook to stable if Credit Suisse met its capital adequacy objectives and maintained its strong overall business franchise over the next two years, particularly in global private banking.

Ratings Score Snapshot

Issuer Credit Rating	A+
Bank Holding Company Rating	A
SACP	a-
Anchor	a-
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and adequate (0)
Support	2
GRE Support	0
Group Support	0
Sovereign Support	2
Additional Factors	0

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Credit Suisse AG		
Credit Suisse International		
Credit Suisse Securities (USA) LLC		
Credit Suisse (USA) Inc.		
Credit Suisse Holdings (USA) Inc.		
Counterparty Credit Rating	A+/Negative/A-1	A+/Stable/A-1

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Credit Suisse Group AG
Counterparty Credit Rating A/Negative/A-1 A/Stable/A-1

Ratings Affirmed

Credit Suisse AG
Credit Suisse International
Certificate Of Deposit A+/A-1

Banco Credit Suisse Mexico S.A.
Counterparty Credit Rating
Mexico National Scale mxAAA/Stable/mxA-1+

Casa de Bolsa Credit Suisse (Mexico) S. A. de C. V.
Counterparty Credit Rating
Mexico National Scale mxAAA/Stable/mxA-1+

Credit Suisse AG
Senior Unsecured (45 issues) A+
Commercial Paper (2 issues) A-1

Credit Suisse Group Finance (Guernsey) Ltd.
Senior Unsecured (7 issues) A

Credit Suisse Group Finance (U.S.) Inc.
Senior Unsecured (1 issue) A

Credit Suisse International
Senior Unsecured (1 issue) A+
Senior Unsecured (9 issues) A+

Downgraded

	To	From
Credit Suisse AG		
Subordinated (13 issues)	BBB+	A
Junior Subordinated (8 issues)	BBB	BBB+

Claudius Ltd.		
Junior Subordinated (2 issues)	BBB	BBB+

Credit Suisse Group Capital (Guernsey) III Ltd.		
Preferred Stock (1 issue)	BBB-	BBB

Credit Suisse Group Capital (Guernsey) VI Ltd.		
Preferred Stock (1 issue)	BBB-	BBB

Credit Suisse Group Finance (Guernsey) Ltd.		
Subordinated (3 issues)	BBB	A-
Junior Subordinated (1 issue)	BBB-	BBB

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Credit Suisse Group Finance (U.S.) Inc. Subordinated (2 issues)	BBB	A-
Credit Suisse International Junior Subordinated (4 issues)	BBB	BBB+

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