FITCH AFFIRMS CREDIT SUISSE GROUP AT 'A-'; OUTLOOK POSITIVE

Fitch Ratings-London-12 June 2019: Fitch Ratings has affirmed Credit Suisse Group AG's (CSG) Long- and Short-Term Issuer Default Ratings (IDR) at 'A-'/'F2' and its Viability Rating (VR) at 'a-'. The Outlook on the Long-Term IDR is Positive.

Fitch has also affirmed the Long-Term IDRs of operating subsidiaries Credit Suisse AG (CS; at 'A'), Credit Suisse (Schweiz) AG (CS Schweiz; at 'A'), Credit Suisse International (CSI; at 'A-'), Credit Suisse (Deutschland) AG (CSD; at 'A-') and Credit Suisse Securities Sociedad de Valores SA (CSSSV; at 'A-'). Fitch has upgraded the Long-Term IDR of Credit Suisse (USA) Inc (CSUSA; to 'A' from 'A-'). The Short-Term IDRs of subsidiaries have been affirmed at 'F1'. A full list of rating actions is at the end of this rating action commentary.

The Positive Outlook on CSG's Long-Term IDR reflects the group's progress towards stated profitability targets and the completion of the group's restructuring programme, which has involved reassigning around USD54 billion of restructured risk-weighted assets (excluding operational risk; just under 20% of risk weighted assets at end-2015) towards businesses, which should reduce the future volatility of the group's earnings. We also expect profitability to improve as a result of executed cost and non-core asset reductions. These should boost annual return on tangible equity to at least around 9% in 2019 (assuming no changes in revenues). We expect losses from the remaining non-core assets to be minimal. Tail risk to capital from legacy conduct issues has also reduced as the larger outstanding cases have been settled.

KEY RATING DRIVERS - VRs
CSG, CS
CS accounts for substantially all CSG's consolidated assets, and their VRs are assessed on a consolidated basis. The VRs reflect the group's strong international wealth management franchise and the second-largest universal banking presence in Switzerland, which generate sound and stable earnings and are the main profit drivers for the group.

Revenue reliance on investment banking business remains high despite some rebalancing in recent years, and acts as a constraint on group's ratings due to these activities' high earnings volatility, muted pre-tax profit contribution and reduced but still high capital consumption. We expect growth in wealth management earnings to reduce the impact of earnings volatility in investment banking activities on consolidated profitability over time. The VRs also reflect the group's inherently significant (similarly to peers) exposure to operational risk given the complexity of its business model, but at the same time sound asset quality and liquidity, and our view that its capitalisation is broadly commensurate with risk.

We expect CS's performance to improve from the 1.2% operating profit/risk-weighted assets reported in 2018 despite a slow start in 2019, through clearly identified and deliverable levers. Lower losses from legacy non-core assets and lower funding costs together imply a pre-tax profit upside of around USD1 billion in 2019, assuming flat revenues.

This is equivalent to about 30bp of risk-weighted assets. Profitability should also benefit from the absence of restructuring costs following the completion of a restructuring programme (CHF0.6 billion in 2018). A further CHF0.5 billion of pre-tax profit upside could stem from targeted cost savings, although these are likely to be at least partly reinvested in growth, depending on revenue outlook.

Nonetheless, Fitch believes revenue prospects are still sensitive to the performance of investment banking-related activities. Underwriting and advisory, fixed-income trading and equities trading collectively accounted for 43% of group revenue in the 12 months to end-March 2019.

CSG's investment banking franchise strengths are based on leveraged finance and US securitised products, where the bank has leading positions. CSG estimated that on average between 1Q16 and 3Q18 revenue contribution from leveraged finance-related activities was just under 20% of its Global Markets division's revenues and just under 30% of that of the Investment Banking and Capital Markets division. However, we believe that a downturn in the leveraged finance market would still represent a material downside risk to the group's earnings.

CSG's risk management framework is in our view appropriate for its business, which requires managing traded and illiquid instruments and material exposures to credit, market and operational risk. We expect the group's asset quality to remain sound, reflecting good management of high-risk exposures and low credit risk combined with adequate collateralisation of the Lombard and Swiss mortgage loan books. We believe that CS's exposure to leveraged finance activities, while managed well, is higher than for other global trade and universal banks (GTUBs) when measured in relation to total equity and can give rise to concentration risk.

CSG's fully loaded common equity Tier 1 (CET1) ratio of 12.6% at end-March 2019 is in line with GTUB peers'. The 5.2% Tier 1 leverage ratio compares well with European peers' but is weaker than US peers'. CSG aims to operate with a CET1 ratio of 12.5% plus/minus 25bp and at least a 5% Tier 1 leverage ratio in the medium term. It aims for the CET1 ratio to be above 12.5% at end-2019.

We believe these targets are broadly commensurate with group risks given CSG's improved ability to generate capital internally and reduced external shocks to capitalisation following the settlement of large known cases and lower losses from legacy assets. Operating with a CET1 ratio below the target level over an extended time frame could in our view be ratings negative as capital market risks faced by the bank render its capital vulnerable to shocks, particularly in the US credit market, which accounts for a greater proportion of equity than at peers.

CS's funding profile benefits from a well-established and diversified deposit base, stemming from its domestic franchise and international wealth management activities. The group's business model relies on significant (although reducing) access to confidence-sensitive wholesale funding.

Use of short-term unsecured funding is moderate and liquidity risks are mitigated by a large cushion of liquid assets. At end-March 2019 CS's liquidity pool totalled CHF161 billion, equal to 20% of total assets. Around half of this was cash balances with central banks. The group's daily average liquidity coverage ratio was sound at 191% in 1Q19.

CSG's VR is equalised with that of CS, reflecting moderate double leverage (109% at end-2018) and our expectation that holding company liquidity management will remain prudent.

IDRs, DERIVATIVE COUNTERPARTY RATINGS AND SENIOR DEBT

CS's Long-Term IDR and senior debt ratings are one notch above the bank's VR because the buffer of qualifying junior debt (QJD) and total-loss absorbing capital (TLAC)-eligible senior holding company debt (around 17% of risk-weighted assets at end-March 2019) is sufficiently large to recapitalise the bank after a resolution without imposing losses on senior creditors.

This compares with our estimated recapitalisation amount of around 9%, which represents the difference between minimum going-concern capital requirements (14.3%) and our assumed regulatory intervention point at around 6%, taking into account the uncertainty about the

precise intervention point and our view that a buffer above the minimum requirements after recapitalisation is likely.

We do not apply this uplift to CSG because the amount of QJD available as a buffer for holding company senior creditors is insufficient in our view and we do not expect it to become sufficiently large given the single-point-of-entry resolution strategy focussed on building up TLAC in the form of senior holding company debt.

CS and CSG's Short-Term IDRs of 'F1' and 'F2' are the baseline options mapping to their Long-Term IDRs of 'A' and 'A-' respectively. In the case of CS, this is because the group's Funding and Liquidity score of 'a' is below the minimum required for the higher Short-Term IDR option under Fitch's Short-Term Ratings criteria. In the case of CSG, this is because the group's liquidity is managed and retained at CS level.

CS's Derivative Counterparty Rating (DCR) is at the same level as its Long-Term IDR because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario.

Senior unsecured debt issued by CS and CSG is rated in line with the entities' IDRs. TLAC-eligible senior unsecured debt issued by Credit Suisse Group Funding (Guernsey) Limited and guaranteed by CSG is rated in line with the guarantor's IDR.

SUPPORT RATINGS AND SUPPORT RATING FLOORS

CS AND CSG

CSG and CS's Support Ratings and Support Rating Floors reflect our view that senior creditors of both the holding and the operating bank can no longer rely on receiving full extraordinary support from the sovereign if CS becomes non-viable, largely due to progress made in Swiss legislation and regulation to address the 'too big to fail' problem for the two big Swiss banks.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid securities issued by CS and CSG are all notched down from CS and CSG's VRs in accordance with Fitch's assessment of each instrument's non-performance and relative loss severity risk profiles, which vary considerably.

Subordinated lower Tier 2 debt is rated one notch below the VR for loss severity, reflecting below-average recoveries.

Low trigger-contingent capital Tier 2 notes are rated two notches below the VR, reflecting loss severity, due to contractual full and permanent write-down language.

High and low trigger-contingent capital Tier 1 instruments are rated five notches below the VR. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are notched down three times for very high non-performance risk due to fully discretionary coupon omission.

SUBSIDIARIES

CS SCHWEIZ

CS Schweiz is CS's wholly domestic subsidiary, which houses the group's domestic retail and commercial banking activities and broadly corresponds to the group's Swiss Universal Bank business division. Its VR reflects its low-risk domestic loan book, moderate volumes of trading assets, sound capitalisation and a strong deposit franchise. Its VR also reflects its deep integration with CS and high fungibility of liquidity and capital between the two entities.

CS Schweiz's Support Rating of '1' primarily reflects our view that the entity is an integral part of CS, and that its default would constitute significant reputational risk to its parent, increasing CS's propensity to provide extraordinary support, if required. For this reason, its IDRs are equalised with the IDRs of CS. The Positive Outlook on its Long-Term IDR mirrors that on CS.

CS Schweiz makes up a significant part of the group's total assets and equity, but we believe it would be unlikely that the Swiss regulator would impose significant restrictions on recapitalising CS Schweiz using resources from the rest of the group, or on upstreaming capital from other CS subsidiaries where available. CS Schweiz's significant relative size is further mitigated by our view that the subsidiary's need for support is unlikely to arise simultaneously with that of other foreign subsidiaries.

CS Schweiz's DCR is at the same level as its Long-Term IDR because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario.

OTHER SUBSIDIARIES

CSI (based in the UK), CSD (based in Germany) and CSSSV (based in Spain) are wholly owned subsidiaries of CS. CSUSA is a US holding company directly held by Credit Suisse Holdings (USA), Inc., the group's US intermediate holding company, which is owned by CS. We view these entities as integral to the group's business and core to CS's strategy. Their Long-Term IDRs are aligned with CS's VR (CSI, CSD and CSSSV) or IDR (CSUSA).

The Long-Term IDRs of CSI, CSD and CSSSV are equalised with CS's VR but are one notch below CS's Long-Term IDR. This is because at this stage we do not expect that these entities will benefit from the junior debt buffer present at the level of CS, or that the buffer of junior debt pre-placed at these entities by CS will be sufficiently large.

We believe that CSI's unlimited liability status highlights the entity's key role within the group, but does not legally require CS to support CSI's liabilities before a liquidation scenario. CSUSA's Long-Term IDR is equalised with that of CS, reflecting large amounts of internal loss-absorbing capital downstreamed to the US intermediate holding company.

CSI and CSSSV's DCRs are at the same level as the entities' Long-Term IDRs because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario in the UK (CSI) or in Spain (CSSSV).

CSD's deposit ratings are aligned with its 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. In addition, we have not assigned any uplift for above-average recovery prospects in the event of default due to the limited visibility on recovery in such circumstances.

The entities' Short-Term IDRs of 'F1' are equalised with CS's. CSI and CSUSA's senior unsecured debt ratings are in line with their respective IDRs.

Credit Suisse New York branch's IDRs and senior unsecured debt ratings are at the same level as those of CS because the branch is part of the same legal entity without any country risk restrictions. The alignment of IDRs reflects our view that senior creditors of the branch would be treated identically to other senior creditors of Credit Suisse.

RATING SENSITIVITIES

CSG AND CS

VRs

The Positive Outlooks on CSG and CS's Long-Term IDRs reflect our expectation that the group's VRs, and consequently the Long-Term IDRs, could be upgraded by one notch. An upgrade would require a longer record of decreased earnings volatility as the group progresses towards meeting its profitability targets without increasing risk appetite.

Should capital markets businesses post significant pre-tax losses, for example as a result of deterioration in the leveraged finance market, which would compromise the group's pre-tax profit improvement, the Outlook may be revised to Stable. Slippage from capital targets or materialisation of an unexpected asset risk in international wealth management would put pressure on the VRs.

IDRs, DCR AND SENIOR DEBT

CSG and Credit Suisse's Long-Term IDRs are primarily sensitive to a change in their VRs. CS's Long-Term IDR is sensitive to the buffer of QJD and downstreamed TLAC, which we expect will be maintained. Switzerland's single-point-of-entry approach to bank resolution makes the build-up of sufficient junior debt buffers at CSG, and consequently a one-notch uplift of its Long-Term IDR above its VR, unlikely.

CS's DCR is primarily sensitive to changes in its Long-Term IDR. It could also be upgraded to one notch above the IDR if a change in legislation creates legal preference for derivatives over certain other senior obligations, and if in Fitch's view the volume of all legally subordinated obligations provides a substantial enough buffer to protect derivative counterparties from default in a resolution scenario.

Senior unsecured debt ratings are primarily sensitive to changes in the respective issuers' IDRs (for debt issued by Credit Suisse Group Funding (Guernsey) Limited and guaranteed by CSG, the guarantor's IDRs).

SUPPORT RATINGS AND SUPPORT RATING FLOORS

An upgrade to CS or CSG's Support Ratings and an upward revision to the Support Rating Floors would be contingent on a positive change in Switzerland's propensity to support its banks. This is highly unlikely in our view, although not impossible.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital ratings are notched from the VRs of CS or CSG. Consequently, an upgrade of the anchor VRs would lead to an upgrade in the securities' ratings, absent a change in the notching from the VR. The notching could change if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the respective issuers' VRs. This may reflect, for example, a change in capital management in the group or an unexpected shift in regulatory buffer requirements.

SUBSIDIARIES

CS Schweiz

CS Schweiz's Long-Term IDR is primarily sensitive to the Long-Term IDR of CS. The Long-Term IDR and Support Rating are also sensitive to changes in our assessment of CS's ability to provide extraordinary support to CS Schweiz and the importance of CS Schweiz to the rest of the group.

A longer track record of strong and stable earnings and capitalisation could provide upside to CS Schweiz's VR. Conversely, weaker capitalisation or asset quality or reduced earnings stability than we expect could result in a downgrade of CS Schweiz's VR. The VR of CS Schweiz is also likely to be correlated to the VR of CS as capital and liquidity are largely fungible within the group, and could come under pressure in case of a downgrade of CS's VR.

OTHER SUBSIDIARIES

The subsidiaries' ratings are primarily sensitive to changes in anchor ratings (CS's VR for CSI, CSD and CSSSV and CS's Long-Term IDR for CSUSA). Sufficient buffers of junior and internal loss-absorbing debt pre-placed at CSI, CSD and CSSSV, along with clear regulatory incentives to maintain these, could result in the entities' Long-Term IDRs being aligned with CS's Long-Term IDR.

The subsidiaries' ratings are also sensitive to adverse changes in the parent's propensity to provide support.

The rating actions are as follows:

Credit Suisse Group AG:
Long-Term IDR: affirmed at 'A-'; Outlook Positive
Short-Term IDR: affirmed at 'F2'
Viability Rating: affirmed at 'a-'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior unsecured debt: affirmed at 'A-'/'F2'
Subordinated Tier 2 notes: affirmed at 'BBB+'
Additional Tier 1 note: affirmed at 'BB'

Credit Suisse AG:
Long-Term IDR: affirmed at 'A'; Outlook Positive
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a-'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative Counterparty Rating: affirmed at 'A(dcr) '
Senior unsecured debt: affirmed at 'A'/'F1'
Subordinated Tier 2 notes: affirmed at 'BBB+'
Subordinated low-trigger Tier 2 notes: affirmed at 'BBB'

Credit Suisse (Schweiz) AG
Long-Term IDR: affirmed at 'A'; Outlook Positive
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '1'
Derivative Counterparty Rating: affirmed at 'A(dcr) '

Credit Suisse International:
Long-Term IDR: affirmed at 'A-'; Outlook Positive
Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Derivative Counterparty Rating: affirmed at 'A-(dcr) '
Senior unsecured debt: affirmed at 'A-'/'F1'

Credit Suisse (Deutschland) AG
Long-Term IDR: affirmed at 'A-'; Outlook Positive
Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Deposits: affirmed at 'A-'/'F1'

Credit Suisse Securities Sociedad de Valores
Long-Term IDR: affirmed at 'A-'; Outlook Positive

Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Derivative Counterparty Rating: affirmed at 'A-(dcr) '

Credit Suisse (USA) Inc.:
Long-Term IDR: upgraded to 'A' from 'A-'; Outlook Positive
Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Senior unsecured debt long-term rating: upgraded to 'A' from 'A-'
Senior unsecured debt short-term rating: affirmed at 'F1'

Credit Suisse NY (branch):
Long-Term IDR: affirmed at 'A'; Outlook Positive
Short-Term IDR: affirmed at 'F1'
Senior unsecured debt: affirmed at 'A'/'F1'

Credit Suisse Group Funding (Guernsey) Limited
Senior unsecured debt: affirmed at 'A-'/'F2'

Contact:

Primary Analyst
Claudia Nelson
Senior Director
+44 20 3530 1191
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Konstantin Yakimovich
Senior Director
+44 20 3530 1789

Committee Chairperson
Alan Adkins
Managing Director
+44 20 3530 1702

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email: louisa.williams@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
https://www.fitchratings.com/site/re/10044408
Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)
https://www.fitchratings.com/site/re/10044407
Short-Term Ratings Criteria (pub. 02 May 2019)
https://www.fitchratings.com/site/re/10073011