FitchRatings

Banks
Universal Commercial Banks
Switzerland

Credit Suisse Group AG

Key Rating Drivers

Strong Wealth Management Franchise: The Long-Term Issuer Default Rating (IDR) and Viability Rating (VR) of Credit Suisse Group AG's (CSG) are driven by the group's strong international wealth management franchise and leading universal-banking presence in Switzerland, as well as improved profitability following the completion of the group's restructuring. They also reflect the group's significant revenue reliance on potentially volatile investment-banking activities and exposure to operational risk inherent in its business model.

Stable Outlook Despite Coronavirus Disruption: The Stable Outlook reflects Fitch Ratings' view that CSG's ratings have sufficient headroom to absorb significant shocks under various possible downside scenarios to our baseline economic forecast. This reflects the group's asset quality, capitalisation and funding and liquidity, which we score above the VR. Asset quality and capitalisation will likely come under pressure in 2020 and 2021, but we do not expect a sustained deterioration triggering a downgrade of the VR to the 'bbb' category.

Setbacks to Earnings Improvements: CSG profitability remains moderate for its rating despite improvement in recent years. Market volatility benefited sales and trading revenue and transaction-based income in 1Q20 and may continue to do so in the near term. The likely lower recurring fees and primary capital-markets revenues, as well as higher loan impairment charges (LICs), mean that achieving 2020 return targets is now unlikely. However, the ratings factor in our expectation that CSG will remain meaningfully profitable in 2020.

Near-Term Pressure on Capitalisation: CSG's CET1 ratio of 12.1% at end-1Q20 was down 60bp in the quarter due to risk-weighted assets (RWA) inflation caused by market volatility and business volume growth. CSG expects to operate with a CET1 ratio of around 11.5% in 2020, below its previous guidance of around 12%, owing to likely further RWA growth. The ratings factor in our expectation that CSG will restore its CET1 ratio to target levels in 2021. We also take into account the group's sound leverage ratio which compares well with peers'.

Diversified Funding, Robust Liquidity: The group has a stable and diversified funding profile and its near-term funding needs are moderate. The average liquidity coverage ratio (LCR) decreased in 1Q20 but remained sound at 182%. CSG's high-quality liquid assets on average amounted to CHF162 billion in 1Q20 after haircuts (19% of end-1Q20 assets).

Rating Sensitivities

Duration of the Economic Shock: The ratings remain sensitive to the depth and duration of the coronavirus shock to the international economy and financial markets, and the pace of the eventual economic recovery. CSG's ratings have sufficient headroom to withstand various downside scenarios to our baseline. However, they could be downgraded if the economic and financial market disruption arising from the pandemic places severe and sustained pressure on the group's asset quality, earnings and capitalisation.

Inability to Restore Targeted Capitalisation: We would likely downgrade CSG's ratings if we expect that CSG will not be able to maintain its CET1 ratio above 11% in 2020 and restore it to target levels in 2021. This could be due to significantly higher-than-expected impairment charges due to materially sharper or longer shock to the economy, or large unexpected pre-tax losses in capital-market activities, which could indicate weaknesses in risk controls.

Return to Pre-Crisis Trajectory: An upgrade of CSG's ratings is unlikely in the near term given the risks posed by the coronavirus shock, but could result from significant progress in meeting the group's profitability ambitions without increasing the risk appetite.

Ratings

Long-Term IDR	A-
Short-Term IDR	F2
Viability Rating	a-
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign- and LocalCurrency IDRs	AAA
Country Ceiling	AAA
Outlooks	
Long-Term IDR	Stable
Sovereign Long-Term Foreign-and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Non-Bank Financial Institutions Rating Criteria (February 2020)

Related Research

Fitch Revises Credit Suisse Group's Outlook to Stable; Affirms IDRs at 'A-' (May 2020)

Fitch Ratings Completes Review of European Global Trading and Universal Banks' Ratings (June 2020)

Global Economic Outlook: Crisis Update May 2020 - Coronavirus Shock Broadens (May 2020)

Fitch Takes Action on 7 Swiss Banking Groups on Coronavirus Disruption (March 2020)

Fitch Takes Actions on Swiss Banks' Certain Subordinated Debt; Removes from UCO (March 2020)

Analysts

Ioana Sima
+44 20 3530 1736
ioana.sima@fitchratings.com

Konstantin Yakimovich
+44 20 3530 1789
konstantin.yakimovich@fitchratings.com

Ratings Navigator

Credit Suisse Group AG

ESG Relevance:

Banks
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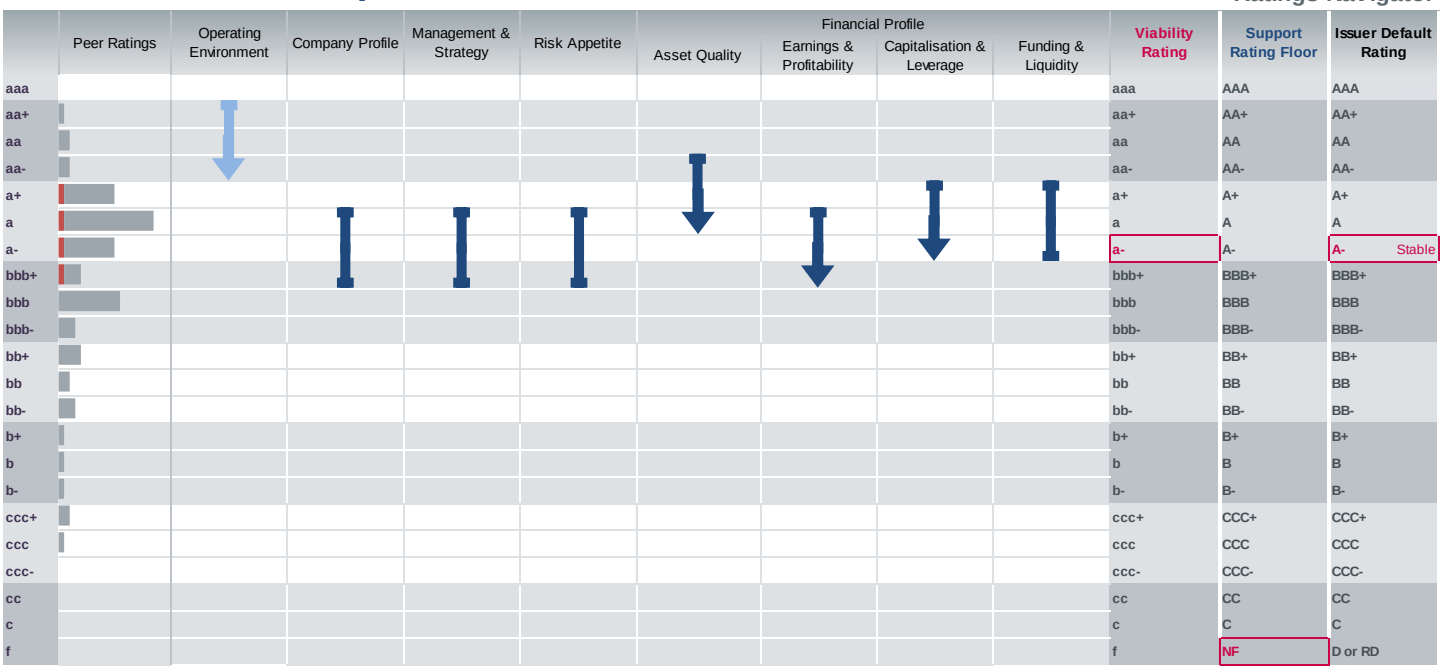


Significant Changes

Coronavirus Disruption to Delay Targets, Hurt Earnings

CSG entered the downturn from a position of strength relative to its 'a-' VR, having completed its restructuring and with the resulting benefits to profitability starting to show in its results. However, we believe that the disruption caused by the COVID-19 pandemic will make it difficult for the group to achieve significant progress towards its profitability targets in the near term, while earnings volatility could increase.

This reflects a weaker environment, in which we expect global GDP to fall by 4.6% in 2020. In Switzerland, we expect GDP to contract by 7%. The recovery is likely to be prolonged, and the projected rebound in growth in 2021 is contingent on the health crisis easing in 2H20. Still, we do not expect GDP to reach pre-virus levels in 2021. A resurgence of the virus that necessitates greatly extended or renewed lockdowns later in 2020 would lead to an even sharper drop in GDP.

CSG posted good results in 1Q20, but our outlook for the rest of the year is considerably weaker. High volatility and wide bid-ask spreads should support flow trading businesses in the near term, although the sustainability of this boost to revenues is uncertain. We expect the group's pre-impairment profitability to come under pressure from lower recurring fees in wealth and asset management as a result of lower assets under management (AuM; minus 9% in 1Q20) and from lower advisory and underwriting revenues due to weaker primary-markets activity. LICs in 1Q20 of CHF568 million, while manageable relative to pre-impairment profit, were already close to twice their normal annual run-rate. We expect them to remain elevated in the near term due to the likely downward revisions to macroeconomic parameters and negative rating migrations.

Despite these pressures we expect CSG to remain meaningfully profitable in 2020. The mix of CSG's AuM, of which only about a third is in the form of equities, should partly cushion the impact of market volatility on AuM volumes and recurring fees. CSG has a good record of managing costs and expects to operate with an adjusted cost base of about CHF16 billion in 2020 (2019: CHF16.9 billion). While we see risks from any surge in LICs and further mark-to-

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

market losses in the event of a prolonged pandemic and a slower-than-expected economic recovery, we believe further cost cuts are possible to support profitability in a downside scenario.

Asset quality is a rating strength for CSG and is underpinned by the group's low-risk domestic mortgage lending and Lombard lending to wealth-management clients. Downside risks arise from the group's non-negligible exposures to sectors that are likely to be particularly hit in the near term, including oil & gas (USD7.7 billion net exposure at end-1Q20, of which USD2.9 billion non-investment grade; end-2015: USD9.1 billion) and shipping.

CSG is also a leading participant in the leveraged-finance market with an underwriting exposure of USD7.3 billion at end-1Q20. CSG recorded USD294 million of mark-to-market losses on leveraged finance underwriting in 1Q20 although part of this is likely to have been recovered as credit spreads have tightened since end-March. In addition, the group recorded CHF160 million of mark-to-market losses net of hedges on performing loans carried at fair value in the APAC division.

The strong starting point implies only remote prospects of asset-quality deterioration jeopardising CSG's 'a-' VR, even under various downside scenarios to our baseline.

CSG's updated targets announced in December 2019 reflected a continuation of the bank's strategy and assumed that the group would be able to improve its return on tangible equity (ROTE) to around 10% in 2020 (around 11% in a supportive environment) from 8.7% in 2019, and to 12% in the medium term. Most of the profitability measures targeted by the group had relatively low execution risk. Additionally, CSG had already identified potential extra costs savings equivalent to about 40bp of ROTE that it could achieve in a more challenging market environment.

Government Measures Provide Near Term Support

The Swiss authorities, in collaboration with the Swiss banks, have so far announced around CHF60 billion (close to 9% of 2019 GDP) worth of measures to support individuals and small businesses affected by the disruption, which should mitigate the impact on the domestic asset quality of Swiss banks, including CSG. These measures include bridge loans to SMEs provided through banks and guaranteed by the federal government (fully up to CHF0.5 million and by 85% for amounts up to CHPF20 million) and compensation to employees and self-employed for loss of earnings due to the lockdown. To finance loans in the package above, the Swiss National Bank (SNB) has set up a special COVID-19 refinancing facility which provides funding secured by the guaranteed loans at the SNB's policy rate of -75bp.

Temporary exclusion of central bank placements from the leverage ratio calculation, and the deactivation by regulators of the counter-cyclical buffer, should free up some capital to facilitate lending. The increase in the threshold above which interest is charged on central bank placements will also somewhat ease the pressure on net interest income from low interest rates. SNB, together with the other major central banks, is also participating in the US dollar swap line that offers cheap access to US dollar funding for seven and 83 days.

Leadership Change Unlikely to Trigger Strategic Changes

In February 2020, CSG's CEO stepped down from his role and was replaced by the former head of CSG's Swiss Universal Bank division. We do not expect recent leadership change to significantly impact the group's strategy. We expect CSG to continue to focus on growing its wealth management business, particularly in its International Wealth Management (IWM) and APAC divisions, while increasing its collaboration with capital markets businesses within the group.

The CEO's departure followed several months of negative publicity triggered by the unauthorised surveillance of the former International Wealth Management head, which resulted in the departure of the group's Chief Operating Officer after an internal investigation in September 2019, and by the revelation of a second case of surveillance of another executive in December 2019. FINMA, the Swiss supervisor of banks and other financial institutions, has opened an investigation into CSG's governance. Despite this, the group's wealth management franchise appears to be intact as net new assets (NNA) flows in 4Q19 compared favourably to

4Q18 and CSG recorded sound inflows in 1Q20. We view the risk of material franchise damage, or top management disruption, to be contained.

Subsidiary and Related Company Ratings

Ratings of Main Legal Entities

Rating level	CSG	Credit Suisse AG	Credit Suisse (Schweiz) AG	Credit Suisse International	Credit Suisse Securities Sociedad de Valores S.A.	Credit Suisse (Deutschland) AG
Long-Term IDR	A-/Stable	A/Stable	A+/Stable	A/Stable	A/Stable	A/Stable
Short-Term IDR	F2	F1	F1	F1	F1	F1
Viability Rating	a-	a-	a			
Support Rating	5	5	1	1	1	1
Support Rating Floor	NF	NF				
Derivative Counterparty Rating		A(dcr)	A+(dcr)	A(dcr)	A(dcr)	

Source: Fitch Ratings

The Long-Term IDR and Derivative Counterparty Rating (DCR) of the group's main operating entity, **Credit Suisse AG** (CS AG), are one notch above its VR. This reflects the large buffer of junior and holding company senior debt that offers protection to CS AG's third party senior unsecured creditors from default in the event of its failure. We expect this buffer to be sustainable given the requirements of the Swiss too-big-to-fail (TBTF) regulation.

Credit Suisse (Schweiz) AG (CS Schweiz), a subsidiary of CS AG, houses the group's domestic retail and commercial banking activities and broadly corresponds to the group's Swiss Universal Bank (SUB) 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.

Its Long-Term IDR and DCR were upgraded in March 2020 following the publication of Fitch's updated Bank Rating Criteria. The ratings are now one notch above its VR because of significant buffers of junior and internal bail-inable debt that offer protection to senior creditors of CS Schweiz in the event of its failure. The Outlook on CS Schweiz's Long-Term IDR mirrors that on the parent because we expect their ratings to remain highly correlated.

Credit Suisse International (CSI, based in the UK), Credit Suisse (Deutschland) AG (CSD, based in Germany) and Credit Suisse Securities Sociedad de Valores S.A. (CSSSV, based in Spain) are wholly owned subsidiaries of CS AG. Credit Suisse (USA) Inc (CSUSA) is a US holding company directly held by Credit Suisse Holdings (USA), Inc., the group's US intermediate holding company (IHC), which is owned by CS AG. 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 AG's IDR.

The Long-Term IDRs of CSI, CSD and CSSSV were upgraded to the level of CS AG's IDR in March 2020 following the publication of the updated criteria. This was to reflect our expectation that their senior creditors will benefit from the parent's junior debt buffers given their high degree of integration with the parent and the group's single point-of-entry resolution strategy. In the case of CSI, this expectation is further underpinned by the regulatory requirement to pre-place sufficient bail-inable debt and equity into the subsidiary. CSUSA ratings had already benefitted from junior debt buffers pre-placed at the level of the US IHC.

Issue Ratings

Debt Rating Classes

Rating level	CSG	CS AG	CSI	CSD
Deposits				A/F1
Senior unsecured debt	A-/F2[a]	A/F1	A/F1	
Tier 2 subordinated debt	BBB	BBB		
Additional Tier 1 debt	BB+			

[a] Including debt issued by Credit Suisse Group Funding (Guernsey) Ltd
Source: Fitch Ratings

Senior unsecured debt of CSG (including debt issued by Credit Suisse Group Funding (Guernsey) Ltd and guaranteed by CSG), CS AG and CSI is rated in line with the issuers IDRs. CSD's deposits are rated in line with its IDRs.

CSG's and CS AG's subordinated Tier 2 debt is notched two times off their VRs for loss severity, in line with Fitch's baseline notching for this type of debt.

CSG's additional Tier 1 debt with fully flexible coupons is rated four notches below its VR. The notching comprises two notches for loss severity, reflecting the notes deep subordination, and two notches for incremental non-performance risk relative to the VR, due to fully discretionary coupon omission. We expect the group to maintain adequate buffers above the mandatory coupon omission points of well in excess of 100bp of risk-weighted assets.

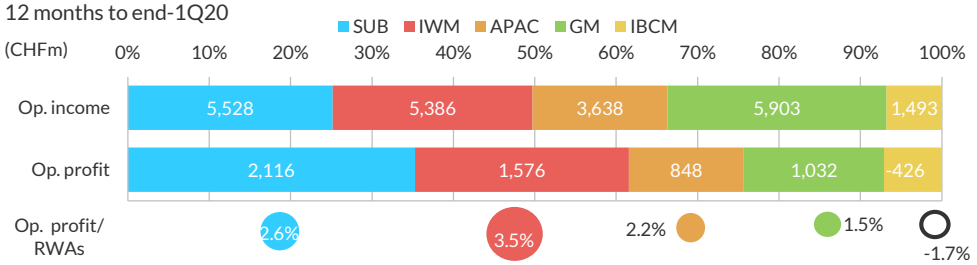
Company Summary and Key Qualitative Assessment Factors

Leading Global Wealth Manager with Sizeable Investment Banking Activities

CSG is the world's fourth-largest wealth manager, with about CHF720 billion of private banking AuM at end-1Q20. The group also has the second largest universal banking presence in the concentrated Swiss market through its SUB division which broadly corresponds to the CS Schweiz legal entity. Its private banking franchise is complemented by a sizeable asset management operation, booked in the IWM unit, with CHF410bn of AuM at end-1Q20. CSG generates the majority of its operating profit in the SUB, IWM and to a lesser extent, APAC divisions, which together provide a generally stable and sound revenue stream and contribute to the overall stability of the group's business model.

CSG has materially reduced its investment banking-related activities booked across Global Markets (GM), Investment Banking and Capital Markets (IBCM) and, partly, APAC divisions since the start of the group's most recent restructuring in late 2015. They remain significant, however, generating 40% of operating revenue in the 12 months to end-1Q20 and consuming a similar amount of the leverage exposure based on our estimates. At the same time, they account for a more modest 15% of the group's operating profit (excluding one-offs and the corporate center) and contribute to the potential earnings volatility.

Earnings by Division
12 months to end-1Q20



Excluding the corporate centre. Op. income and op. profit exclude SIX revaluation gain in 4Q19, gains on transfer of the Investlab platform to a thrid party in 3Q19 and 1Q20, gains/losses on sales of other businesses and real estate.
Source: Fitch Ratings, Credit Suisse

CSG's private banking AuM are globally spread. The group has enjoyed sound inflows of NNA over the last four years, which were on average close to 5% of AuM a year. NNA inflows continued across divisions in 1Q20 despite the market turmoil, with the exception of the SUB, which suffered from a single large but low-margin outflow. AuM from emerging markets clients are significant (around 60% of IWM AuM and we believe a material portion of APAC AuM). We expect their share of total AuM to grow over time reflecting the faster pace of wealth creation in these countries.

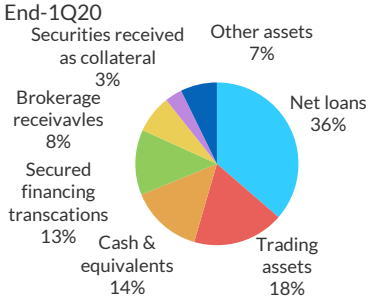
The AuM base derived from emerging market clients could prove more volatile in a prolonged downturn, affecting revenues, although geographical diversification by individual country serves as a mitigating factor. In our view, emerging market clients expose CSG to a higher degree of operational and compliance risk, which has however been well-managed so far. They also expose CSG to a higher degree of credit risk due to their different clients needs, including greater demand for structured lending backed by illiquid collateral as opposed to standard Lombard lending. The latter is managed through prudent haircut policies and concentration limits.

CSG's investment banking franchise is strongest in leveraged finance and securitised products, both on the capital markets and trading side. The group has also made considerable investments in its equities franchise to have a competitive product offering necessary to serve ultra-high-net-worth clients. The absolute size of CSG's investment banking operations is smaller than that of the large US banks but is more significant in relative terms. This means that CSG's overall profitability is more susceptible to swings in investment banking and trading revenues than most of its peers.

Moderate Appetite for Credit Risk

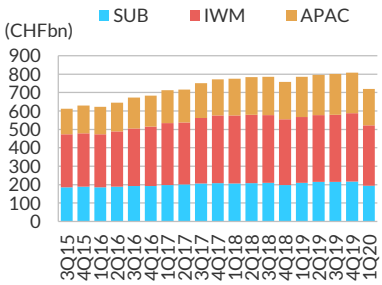
Our view on the group's overall credit risk appetite is underpinned by the low-risk appetite in the SUB division and by the generally low-risk nature of highly-collateralised plain vanilla

Asset Composition
End-1Q20



Figures don't add to 100 due to rounding
Source: Fitch Ratings, Credit Suisse

Private Banking AuM
At period-end



Source: Fitch Ratings, Credit Suisse

Lombard lending, which constitutes the majority of loans in IWM and APAC. Underwriting standards in domestic lending are sound. Domestic mortgage loans are granted on the basis of borrower affordability assessed under stressed interest rates (5%) and need to amortise to at least 66% loan-to-value (LTV) within 15 years. For rental properties and commercial real estate, accepted LTVs at origination are lower and the required amortisation is quicker.

CSG has a moderate exposure to share-backed lending (SBL) secured by less liquid collateral, which has grown in recent years, particularly in APAC. Such loans are subject to a strict collateral haircut policy but sharp falls in the value of typically concentrated underlying collateral can still result in impairment, as was the case in 1Q20. CSG maintains limited appetite for specialty lending to wealth management clients, including shipping, aviation and yacht financing. Shipping loans are extended at moderate LTVs, and CSG typically benefits from corporate guarantees or personal guarantees from the ultimate owners who tend to hold substantial AuM with the group.

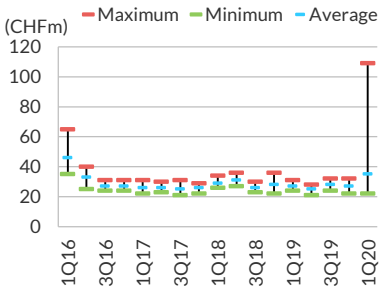
Corporate lending and underwriting exposures can be individually large, but risk is mitigated through the use of hedging and collateral, where available. Overall single name concentration is moderate. CSG has a strong franchise in leveraged finance, which can result in notable underwriting exposure to sub-investment grade borrowers in relation to the group's capital and exposes the group to the risk of mark-to-market losses and hung deals during periods of market stress. The leveraged finance underwriting exposure has come down in response to tougher environment and stood at USD7.3 billion at end-1Q20.

Market Risk Driven by Investment Banking Activities

Fitch views market risk arising from the trading book as material, given the size of capital market activities in relation to the group's capital base. This is balanced by a sound risk management framework. Credit and securitised products are key drivers of traded market risk.

Value-at-risk (VaR, calculated on a one-day holding period/98% confidence basis) has been moderate since the start of the restructuring. Market volatility in 1Q20 resulted in a sharp increase in risk management VaR, mainly driven by higher credit spread risk. While CSG had no back-testing exceptions to its VaR model in 12 months to end-February 2020, it recorded seven exceptions in March. We expect VaR metrics to decrease over time as volatility subsides and CSG takes action to reduce VaR-intensive positions. The number of actual trading loss days in 1Q20 was low (two), suggesting that the group risk controls worked adequately.

Risk Management VaR
(1d, 98%)



Source: Fitch Ratings, Credit Suisse,

Interest-rate risk in the banking book is moderate. A 1bp parallel upward shift in the yield curve would have decreased the value of non-trading positions by CHF6 million at end-1Q20. A 200bp upward shift in the yield curves would reduce the value of banking book positions by CHF628 million or less than 2% of equity at end-2019 (a 200bp downward shift would result in a CHF963 million gain). CSG manages interest rate risk from products with no defined maturity, mainly current accounts and savings deposits, on a pooled basis using replicating portfolios.

The group is also exposed to the market risk from seed investments in some funds it manages, including in the alternatives segment in the US and CLOs in Europe. These generated a CHF101 million unrealized loss in 1Q20 and could generate further losses if markets remain difficult for the underlying assets.

Exposure to Operational and Legal Risks Inherent in the Business Model

The group's material exposure to operational risk is in line with globally active trading and universal bank peers. We expect the group to continue to be subject to litigation risk, in line with peers. The main outstanding cases include civil litigation in relation to CSG's pre-crisis activities in the US RMBS market (which were the main driver of higher provision for litigation in 4Q19) as well as a number of rate setting-related cases. Total provisions for litigation stood at CHF898 million at end-2019. While we do not expect the outstanding cases to result in outsized financial penalties, material fines that would dent capitalisation without credible plans to restore it swiftly would put pressure on ratings. The current environment which makes it more difficult to generate capital internally or raise it externally would make the pressure on ratings in such case more acute.

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17
	3 months - 1st quarter (USDm) Reviewed - unqualified	3 months - 1st quarter (CHFm) Reviewed - unqualified	Year end (CHFm) Audited - unqualified	Year end (CHFm) Audited - unqualified	Year end (CHFm) Audited - unqualified
Summary income statement					
Net interest and dividend income	1,589	1,534.0	7,017.0	7,009.0	6,557.0
Net fees and commissions	2,675	2,582.0	9,882.0	10,631.0	10,387.0
Other operating income	1,085	1,047.0	3,235.0	1,922.0	2,539.0
Total operating income	5,348	5,163.0	20,134.0	19,562.0	19,483.0
Operating costs	3,798	3,667.0	16,056.0	16,044.0	17,467.0
Pre-impairment operating profit	1,550	1,496.0	4,078.0	3,569.0	2,024.0
Loan and other impairment charges	588	568.0	324.0	245.0	210.0
Operating profit	961	928.0	3,754.0	3,324.0	1,814.0
Other non-operating items (net)	283	273.0	966.0	99.0	-13.0
Tax	-114	-110.0	1,295.0	1,361.0	2,741.0
Net income	1,358	1,311.0	3,425.0	2,011.0	-948.0
Other comprehensive income	4,160	4,016.0	-2,222.0	776.0	-2,473.0
Fitch comprehensive income	5,518	5,327.0	1,203.0	2,787.0	-3,421.0
Summary balance sheet					
Assets					
Gross loans	315,004	304,105.0	297,725.0	288,483.0	280,031.0
- Of which impaired	2,608	2,518.0	2,126.0	2,192.0	2,110.0
Loan loss allowances	1,482	1,431.0	946.0	902.0	882.0
Net loans	313,522	302,674.0	296,779.0	287,581.0	279,149.0
Interbank	945	912.0	741.0	1,142.0	726.0
Derivatives	30,719	29,656.0	17,914.0	18,345.0	19,671.0
Other securities and earning assets	284,604	274,757.0	298,892.0	287,211.0	306,539.0
Total earning assets	629,790	607,999.0	614,326.0	594,279.0	606,085.0
Cash and due from banks	123,443	119,172.0	101,879.0	100,047.0	109,815.0
Other assets	108,758	104,995.0	71,090.0	74,590.0	80,389.0
Total assets	861,991	832,166.0	787,295.0	768,916.0	796,289.0
Liabilities					
Customer deposits	403,879	389,905.0	383,783.0	363,925.0	361,162.0
Interbank and other short-term funding	131,996	127,429.0	112,881.0	103,465.0	105,872.0
Other long-term funding	135,105	130,430.0	138,988.0	144,092.0	157,816.0
Trading liabilities and derivatives	46,527	44,917.0	38,234.0	42,177.0	39,218.0
Total funding	717,507	692,681.0	673,886.0	653,659.0	664,068.0
Other liabilities	78,951	76,219.0	56,678.0	61,022.0	74,816.0
Preference shares and hybrid capital	15,012	14,493.0	13,017.0	10,216.0	15,216.0
Total equity	50,521	48,773.0	43,714.0	44,019.0	42,189.0
Total liabilities and equity	861,991	832,166.0	787,295.0	768,916.0	796,289.0
Exchange rate		USD1 = CHF0.9654	USD1 = CHF0.97165	USD1 = CHF0.9811	USD1 = CHF0.9758

Source: Fitch Ratings, Fitch Solutions, Bank

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.2	1.3	1.2	0.7
Net interest income/average earning assets	1.0	1.1	1.2	1.1
Non-interest expense/gross revenue	71.5	80.7	82.7	90.7
Net income/average equity	11.4	7.8	4.7	-2.2
Asset quality				
Impaired loans ratio	0.8	0.7	0.8	0.8
Growth in gross loans	2.1	3.2	3.0	1.1
Loan loss allowances/impaired loans	56.8	44.5	41.2	41.8
Loan impairment charges/average gross loans	0.6	0.1	0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	12.1	12.7	12.6	13.5
Fully loaded common equity Tier 1 ratio	12.1	12.7	12.6	12.8
Tangible common equity/tangible assets	5.1	4.8	4.9	4.4
Basel leverage ratio	5.8	5.5	5.2	5.6
Net impaired loans/common equity Tier 1	3.0	3.2	3.6	3.4
Funding and liquidity				
Loans/customer deposits	78.0	77.6	79.3	77.5
Liquidity coverage ratio	182.0	198.0	184.0	185.0
Customer deposits/funding	56.8	57.0	56.1	54.4
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Soutions, Bank

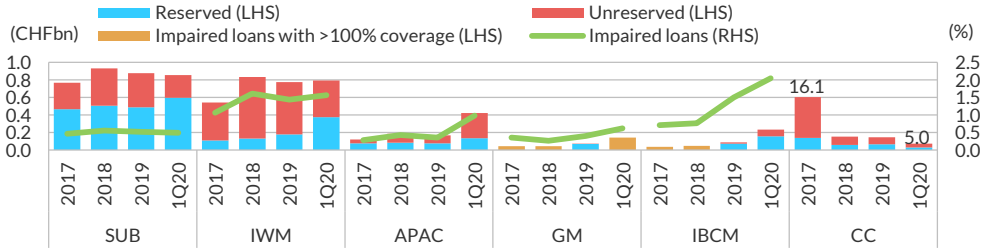
Key Financial Metrics – Latest Developments

Asset Quality Likely To Deteriorate From a Strong Starting Point

The disruption caused by the COVID-19 pandemic creates downside risks to our assessment of CSG's asset quality, although the starting point, with a 0.8% impaired loans ratio at end-1Q20, is strong and supports the ratings. Risks mainly stem from the corporate loan book in GM and IBCM, including leveraged finance, exposure to emerging markets and specialised loans (with private banking clients). Our assessment of asset quality also considers non-loan book exposures, the riskiest of which are mainly generated by capital market activities.

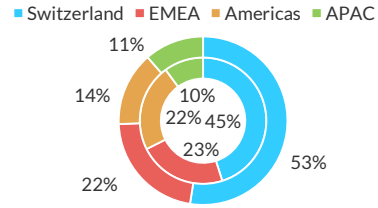
Impaired loans increased by close to CHF400 million in 1Q20, driven by impairments in the APAC, IBCM and GM divisions. CHF304 million or slightly over half of 1Q20 impairment charge was due to the adoption of current expected credit loss provisioning under US GAAP from 1 January 2020 and reflected updates to macroeconomic parameters. We expect LICs to remain elevated in the near to medium-term as effects of the economic disruption become more apparent in the loan book.

Impaired Loans
By division, at period-end



CC corresponds to SRU for end-2018 and prior periods. Impaired % for the 1st and the last periods for the CC/SRU shown in the text boxes above the bars.
Source: Fitch Ratings, Credit Suisse

Gross Credit Exposure
By geography, at end-2019
Outer: loans & securities (CHF396bn)
Inner: total incl. off-balance sheet (CHF501bn)



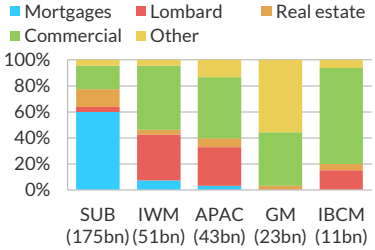
Source: Fitch Ratings, Credit Suisse

APAC Main Driver of Higher Impaired Loans in 1Q20; Full Impact Not Visible Yet

The division was the largest contributor to the increase in group's impaired loans in the quarter due to the earlier spread of coronavirus and imposition of various restrictions on economic activity in the region. The increase was largely due to share-backed loans and a loan to an Indonesian mining company. The impaired loans ratio in APAC remains relatively low despite the stress, reflecting the significant haircuts used for Lombard lending and SBL, as well as most borrowers' ability to post additional collateral to meet margin calls. However, we expect the ratio to increase as the quality of commercial lending is likely to deteriorate further.

CSG also suffered from CHF160 million of mark-to-market losses, net of hedges, on CHF3.4 billion of loans carried at fair value. These loans remain performing and credit spreads have somewhat tightened since March, but the relatively illiquid nature of proxies used to calculate fair values means further markdowns cannot be ruled out.

Gross Loans Breakdown
(End-1Q20)



Other: FI, governments, consumer. Number in brackets: division's loans in CHFbn
Source: Fitch Ratings, Credit Suisse

Corporate and Investment Banking Exposures to Drive Impairments in 2020

GM and IBCM account for a minor portion of total loans, although their share jumped due to corporate drawdowns in 1Q20. The book is diversified by industry. It saw a significant increase in credit losses and impaired exposures in 1Q20, largely driven by the energy sector. We expect the group's oil & gas exposure (USD7.7 billion net at end-1Q20, of which USD2.9 billion non-investment-grade) to be one the main sources of impairments in the near term despite its reduction from the levels seen during the previous period of oil price volatility in 2015 and some recovery of the prices from the recent lows. The group also recorded USD294 million of mark-to-market losses in 1Q20 on its non-investment grade underwriting exposure. Part of this loss has likely been recovered due to the tightening of credit spreads since March.

CSG's capital market operations are material and expose it to various asset classes some of which, including inventory for credit and securitized products, are potentially volatile. Trading assets (CHF151 billion end-1Q20) mostly consist of listed equities and debt, of which around a third relates to foreign governments. The balance is derivatives, mostly interest-rate and foreign-exchange products. Level 3 assets increased to CHF19.6 billion at end-1Q20 (7.5% of

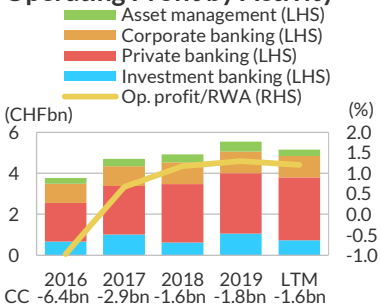
total assets at fair value) from CHF16.2 billion at end-2019, mainly due to transfers in the securitised products, credit and financing businesses. CSG has a significant franchise in securitised products and is active across a number of underlying asset classes, including commercial and residential real estate, consumer loans and to a lesser extent transportation and alternatives.

Low-Risk Domestic Lending; Some Risk From Specialty Lending in IWM

About 60% of the group's loan book at end-1Q20 was booked in the SUB. We expect the quality of domestic lending to remain resilient in the near term despite the coronavirus disruption. The book is dominated by low-risk mortgage lending. The Swiss corporate sector was in a good shape pre-crisis and smaller companies have access to short-term support provided by the government. Pressure on SUB's asset quality is likely to increase as the impact of the lockdown, which was eased in Switzerland in early May, filters through to the book. But this is partly offset by CSG's moderate exposure to industries most affected by the outbreak.

IWM's loan book, which includes just under half of the group's Lombard loan exposure and the speciality finance portfolio, performed well in 1Q20. Impaired loans are elevated relative to most other divisions but remained virtually unchanged despite high market volatility. The vast majority of Lombard loans are low-risk and collateralised by portfolios of diversified securities. Speciality finance includes the group's notable exposure to ship finance and smaller exposures to aviation finance, export finance and international mortgages. The quality of shipping exposures has improved in recent years but remains vulnerable to the economic slowdown as a result of the pandemic and increasing trade tensions.

Operating Profit by Activity



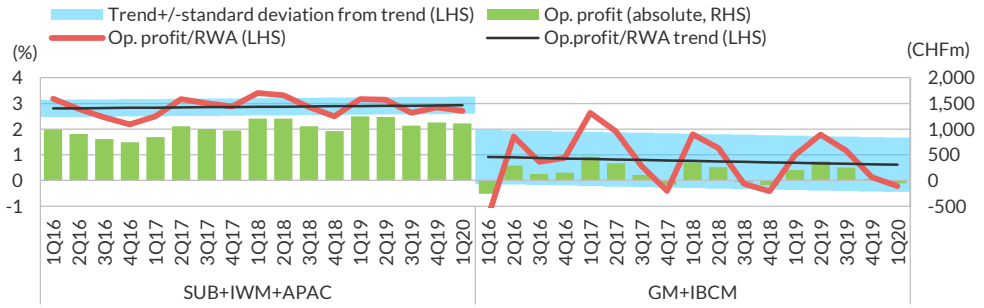
Source: Fitch Ratings, Credit Suisse

Earnings Held Up Well So Far But Exposed to Higher Impairments, Volatility

CSG achieved satisfactory operating profitability in the first full year after the completion of its restructuring. Operating profit in 2019 improved to 1.3% of RWAs on steady performance of SUB, IWM and APAC divisions and a rebound in GM's profitability after a weak 1Q19. Results suffered from weak performance in IBCM (which was loss-making after generating returns on allocated capital in excess of 10% in 2016-2018) and a charge related to civil RMBS litigation in the US (about 10bp off the consolidated operating profit/RWA).

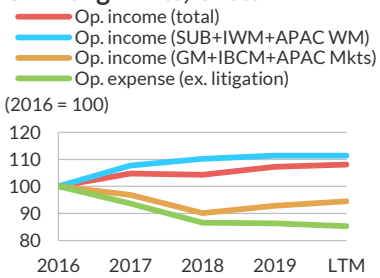
1Q20 (operating profit/RWA of 1.2% on a four-quarter rolling basis) saw a sharp increase in trading revenues (+24% in equities year-on-year, +26% in fixed income) and transaction-based fees (+31%) amid increased market volatility. This more than offset weak underwriting and advisory revenues, against which the majority of mark-to-market losses were booked. Recurring fees and net interest income (NII) held up well. Higher transaction-based fees reflected portfolio rebalancing by clients but also a surge in clients' demand for structured/hedging products. LICs consumed a relatively high 38% of pre-impairment operating profit in 1Q20 (below 10% on average in 2017-2019) and will continue to weigh on earnings in the coming quarters. Net income in 1Q20 benefited from a negative tax rate but return on tangible equity would have still been about 9%-9.5% if taxes were normalized.

Steadily Growing Wealth Management Earnings; More Volatile Investment Bank



Source: Fitch Ratings, Credit Suisse

Good Execution on Revenue in Core Segments, Costs



Source: Fitch Ratings, Credit Suisse

Lower recurring fees (19% of operating income in 12 months to end-1Q20) and lower underwriting and advisory revenues (about 15%) are likely to be the main sources of pressure on pre-impairment profit. CSG's capital markets activities are sufficiently diversified for stronger products to offset weaker performing segments, although we still view this business as inherently volatile. The group's debt capital markets franchise is stronger in the non-

investment-grade space meaning that it may not benefit from the recent rebound in mainly investment grade debt issuance volumes to the same extent as larger peers. The higher SNB exemption threshold and the switch of the group's operational risk RWA currency to US dollar in 4Q19 should however partly offset the impact of lower US interest rates on the NII.

Near-Term Pressure On Risk-Weighted Capital Ratios

CSG's CET1 ratio decreased to 12.1% at end-1Q20 from 12.7% at end-2019 due to RWA inflation caused by market volatility and business volume growth. The group expects to operate with a CET1 ratio of around 11.5% in the remainder of 2020. Further increases in market risk RWAs are likely in 2Q20 as higher VaR values feed through to the internal models. The group also faces CHF9 billion of additional RWA from the phase-in of the revised standardised approach to counterparty credit risk. Future credit risk RWA increases are likely to be driven by negative credit migrations as drawdowns from committed lines have slowed significantly since March. Our baseline expectation is that the group will be able restore its CET1 ratio to the target level in 2021.

CSG followed SNB's recommendation to split the 2019 dividend in two instalments (each equivalent to slightly over 10bp in terms of the CET1 ratio) to be paid in 2Q20 and 4Q20. The group also continues to accrue the 2020 dividend. Assuming the same payout ratio as in 2019, the related deduction from the CET1 capital was slightly under 10bp in 1Q20. Full cancellation of dividends could support the CET1 ratio by about 20bp if needed.

CSG's Tier 1 leverage ratio stood at 5.8% at end-1Q20. The denominator excludes CHF88 billion of cash held at central banks following FINMA's temporarily revised guidance. The ratio would be 5.3% if central bank placements were included, which still compares well with most European peers. The group maintained its 4% guidance for the CET1 leverage ratio at end-2020 (end-1Q20: 4.2%/3.8% excluding/including central bank cash in the denominator respectively).

Stable Funding Profile

CSG's funding benefits from a stable and diversified deposit base in Switzerland and in international wealth management activities. The group's business model relies on significant (although decreasing) access to confidence-sensitive wholesale funding. This is mitigated by sound diversification across type, geography and currency, with a manageable maturity profile. Funding and treasury activities are centralised at the level of Credit Suisse AG.

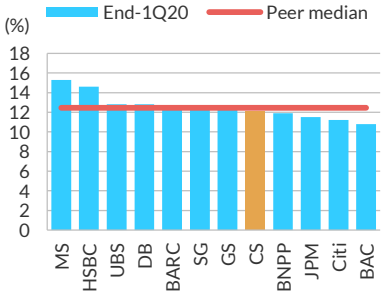
Client deposits of CHF342 billion at end-1Q20 (excluding certificates of deposit and bank deposits) structurally exceed the group's CHF303 billion loan book (excluding banks), although a large portion of deposits resides within the CS Schweiz legal entity. The use of short-term unsecured funding is moderate (CHF100 billion or 13% of total liabilities at end-1Q20, largely comprised of due to banks). The group's trading operations result in a fairly high proportion of match-funded assets, standing at around a fifth of the balance sheet. Short-term funding needs also arise from the need to post additional collateral on trades during periods of market volatility. Liquidity risks are mitigated by the group's large cushion of liquid assets.

CSG's long-term wholesale funding is material at CHF145 billion at end-1Q20 but well diversified. Around a third of total long-term debt was in the form of structured notes issued to private banking clients. Long-term debt issuances have been reducing in recent years but picked up in 2020 to CHF22 billion year-to-date as of June 4. The group expects an incremental issuance of CHF2 billion of total loss absorbing capacity (TLAC)-eligible instruments, and CHF3 billion of operating company instruments to support liquidity and reflecting higher going/gone concern capital requirements as a result of RWA inflation.

Sound Liquidity Management

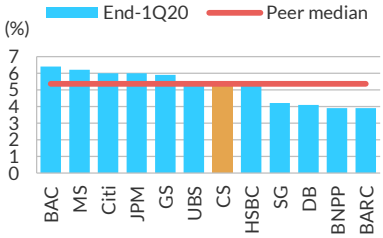
Average group LCR decreased to 182% in 1Q20 from 198% in 4Q19. The decrease was due to higher counterparty margin requirements and drawdowns on committed facilities, partly offset by long-term debt issuance and deposit growth. About half of CSG's HQLA was cash with central banks in Switzerland, the US and the eurozone. At end-1Q20, business divisions outside of treasury had a further CHF26 billion (market value) of unencumbered assets (largely listed equities and bonds) that could be monetised, if needed. Active issuance of long-term funding in April-June and stabilisation of drawdowns on committed facilities is likely to have boosted the LCR and the liquidity buffer since end-March.

Fully-Loaded CET1 Ratios



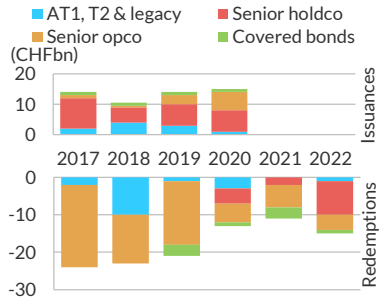
Source: Fitch Ratings. Banks

Leverage Ratios



US: Fully-loaded supplementary leverage ratio; Europe: Basel III fully-loaded Tier 1 leverage ratio
Source: Fitch Ratings, Banks

Long-Term Debt Issuance



Redemptions indicate maturities or first call dates for capital instruments
Source: Credit Suisse, Fitch Ratings

Sovereign Support

CSG and CS AG'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 the group 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.

Environmental, Social and Governance Considerations

ESG issues are credit neutral or have only a minimal credit impact on CSG and its subsidiaries, either due to their nature or the way in which they are being managed by the group. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings

Credit Suisse Group AG

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit Suisse Group AG has 5 ESG potential rating drivers

- Credit Suisse Group AG has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Prinicples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.