MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Credit Suisse AG's senior unsecured debt and deposit ratings to A1; outlook stable

13 Jul 2021

Credit Suisse Group AG's senior unsecured debt ratings affirmed at Baa1

Frankfurt am Main, July 13, 2021 -- Moody's Investors Service ("Moody's") today downgraded the long-term senior unsecured debt and deposit ratings of Credit Suisse AG (CS) by one notch to A1 from Aa3. At the same time, the rating agency affirmed the Baa1 senior unsecured debt ratings of Credit Suisse Group AG.

The outlook on these ratings has been changed to stable from negative.

The rating agency further downgraded CS's Baseline Credit Assessment (BCA) and Adjusted BCA to baa2 from baa1 and its long-term Counterparty Risk Assessment to A1(cr) from Aa3(cr). The long-term senior unsecured debt, issuer as well as deposit ratings of all of CS's subsidiaries - where applicable - have also been downgraded.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL449096 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

--- DOWNGRADE OF THE BCA AND LONG-TERM RATINGS

The downgrade of CS's BCA, as well as most of its long-term ratings, reflects revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. In particular, Moody's revised view of the capital instruments likely to provide CS with equity-like loss absorption before the point of non-viability has led to the removal of equity credit for high-trigger Additional Tier 1 (AT1) instruments from CS's going concern capital. This has reduced CS's capacity to absorb unexpected losses before the point of failure, leading to a weaker solvency position.

The downgrades further reflect Moody's view of (1) a higher-than-anticipated risk appetite and deficiencies in CS's risk management and risk awareness and related control processes and frameworks, as highlighted by the material losses pertaining to the unwinding of concentrated leveraged equity and derivatives exposures following the failure of a US hedge fund client, as well as the aggregate risk the group assumed in relation to Greensill's founder and his companies culminating in the wind-down of CS's supply chain finance funds; (2) potential additional strain on the bank's financial profile and, in particular, its capital position stemming from further losses in relation to the wind-down of the hedge-fund-related positions during the second quarter of 2021 or its now suspended supply chain funds either as a result of litigation or regulatory fines or other efforts to mitigate franchise and reputational impairment; and (3) the potential for client defections and franchise impairment from the possible reputational effects these events might have on the bank's core asset and wealth management businesses as well as its investment banking franchise.

Although Moody's anticipates that CS will enhance its governance and risk management practices, including implementing the recommendations resulting from internal and external investigations, the extent and effectiveness of these measures will remain uncertain for some time. In addition, the final financial and reputational implications of the aforementioned events for CS also remain unclear. Further, as indicated by similar cases in the past, the investigation and remediation of these matters will likely consume a significant amount of bank resources and managerial focus and take time to resolve, during which CS will remain vulnerable to the aforementioned risk factors.

--- AFFIRMATION OF GROUP-LEVEL SENIOR UNSECURED DEBT RATINGS AND AFFIRMATION OF SUBORDINATED RATINGS

The affirmation of Credit Suisse Group AG's Baa1 long-term senior unsecured debt ratings reflects the revision of Moody's Advanced LGF framework following the publication of Moody's updated Banks Methodology on 9 July 2021.

In particular, the affirmation captures the consideration of all AT1 securities issued by banks domiciled in Switzerland in Moody's Advanced LGF framework, eliminating the previous analytical distinction between those high-trigger instruments that were deemed to provide equity-like absorption of losses before the point of failure and other AT1 securities. This leads to a higher volume of debt subordinated to the group's senior unsecured liabilities and, together with the high volume of group senior unsecured debt outstanding, to a one-notch uplift as a result of Moody's Advanced LGF analysis from no uplift prior to the revisions of the rating agency's Advanced LGF framework. This higher uplift compensates for the one-notch downgrade of the bank's Adjusted BCA to baa2, from which these ratings are notched.

CS's subordinated programme ratings have also been affirmed at (P)Baa2, similarly taking account of the higher volume of debt subordinated to this debt class as a result of the inclusion of high-trigger AT1 securities in Moody's Advanced LGF framework as well as benefitting from the revised notching guidance thresholds at lower levels of subordination and volume in the liability structure. This leads to these ratings now being positioned in-line with the bank's baa2 Adjusted BCA.

--- STABLE OUTLOOK

The stable outlook on CS's senior unsecured debt, long-term issuer and deposit ratings reflects Moody's view of manageable strain on the bank's financial profile and, in particular, its capital position stemming from potential additional losses in relation to the aforementioned matters. In changing the outlook to stable, the rating agency expects CS to contain the potential for client defections and franchise impairment from the possible reputational effects these events might have on the bank's integrated businesses. Moody's also expects any potential reductions in risk appetite in areas outside the bank's prime brokerage business as part of a possible strategic review and related investments or charges to not meaningfully and sustainably impair CS's ability to earn a medium-term return on equity of around 10%.

The stable outlook also assumes that enhancements with regard to the bank's risk appetite, risk awareness and its related risk control and governance frameworks are implemented swiftly and that any internal or external findings get remediated in full.

Any further signs or evidence of more major deficiencies in its risk control processes and frameworks could trigger a renewed change in outlook to negative. These potential additional deficiencies as well as uncertainties regarding the bank's future strategic direction are captured by maintaining a one-notch downward adjustment for Corporate Behavior in CS's scorecard, leading to a positioning of the BCA at the high-end of the possible range.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

There is little prospect of higher ratings in the near- to medium-term, as indicated by the positioning of the BCA at the high-end of the scorecard range.

Although highly unlikely at present, CS's BCA and long-term ratings could be upgraded if the group (1) demonstrates that it has fully addressed and remediated the significant corporate governance, risk, audit or compliance control shortcomings relating to its failed hedge fund client and the supply chain funds and Greensill exposures and that similar cases are less likely to occur in the future; (2) achieves a sustainable improvement in its profitability to well above its communicated targets; (3) successfully manages its risk appetite in its investment bank and adjacent segments, in particular with regard to leveraged lending and other non-investment-grade exposures; (4) develops and constantly delivers on meaningful further, visible improvements to its risk control, audit, compliance and governance frameworks, allowing for better oversight on aggregate risks taken within the bank's integrated business model across segments; and (5) extends the share of revenue, profits and resources generated from and allocated to its more stable wealth management and Swiss universal banking businesses while maintaining a strong performance in its investment bank.

A return to a higher BCA and, thereby, long-term ratings would also be conditional upon any potential restructuring or additional strategic refinements not resulting in a sustained negative impact on CS's financial profile, in particular its capital position, and overall franchise.

The ratings could be further downgraded if (1) Moody's determines in part based on findings of investigations or regulatory probes that CS maintains a higher-than-anticipated risk appetite, in particular in its capital-markets oriented segments or products, or that any identified shortcomings in the bank's risk control or awareness, audit, compliance or governance frameworks are unlikely to be fully addressed in a timely manner; or (2) CS suffers from additional significant financial and reputational repercussions such as large unexpected losses, fines and meaningful client attrition, substantially eroding its solvency and liquidity metrics, in particular if caused by sustained client or revenue attrition or franchise impairment.

The ratings could further be downgraded should there be a significant and larger-than-anticipated decrease in the bank's existing stock of loss-absorbing liabilities. Although regarded highly unlikely at present, this may lead to fewer notches of rating uplift as a result of Moody's Advanced LGF analysis.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL449096 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement Status

• UK Endorsement Status

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Disclosure to Rated Entity

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Michael Rohr
Senior Vice President
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ana Arsov
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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