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CREDIT OPINION
1 April 2021

Update

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RATINGS

**Credit Suisse Group AG**

| | |
|---|---|
| Domicile | Zurich, Switzerland |
| Long Term Debt | Baa1 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Negative |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


Contacts

Michael Rohr +49.69.70730.901
*Senior Vice President*
michael.rohr@moodys.com

Yana Ruvinskaya +33.1.53.30.33.93
*Associate Analyst*
yana.ruvinskaya@moodys.com

David Fanger +1.212.553.4342
*Senior Vice President*
david.fanger@moodys.com

Laurie Mayers +44.20.7772.5582
*Associate Managing Director*
laurie.mayers@moodys.com

Ana Arsov +1.212.553.3763
*MD-Financial Institutions*
ana.arsov@moodys.com


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# Credit Suisse Group AG

## Update following affirmation and outlook change to negative

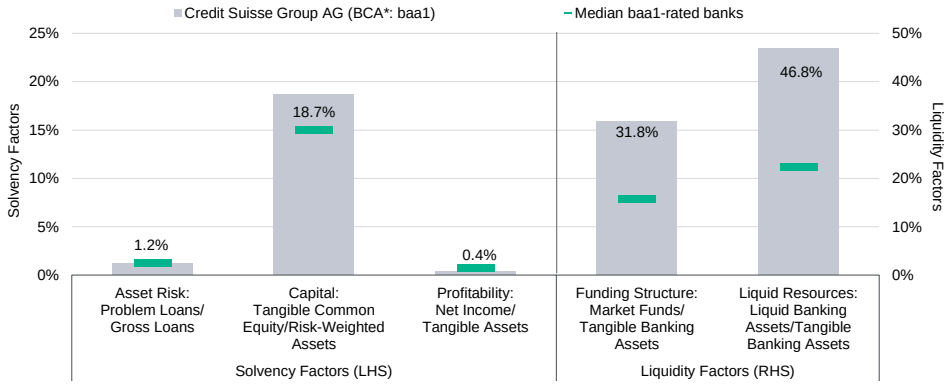
## Summary


We assign Baa1 senior unsecured debt ratings to Credit Suisse Group AG and Aa3/P-1 senior unsecured debt and deposit ratings to its principal bank subsidiary, Credit Suisse AG. We further assign a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA to Credit Suisse AG, as well as Aa3/P-1 Counterparty Risk Ratings. These ratings have been affirmed on 31 March 2021 and the corresponding outlooks were changed to negative from stable.

The negative outlooks reflect our view on (1) emerging signs of a higher-than-anticipated risk appetite and/or potential deficiencies in CS's risk management, audit, compliance or governance control processes and frameworks; (2) potential strain on the bank's financial profile and, in particular, its capital position stemming from possible losses pertaining to these matters; and (3) the potential for client defections and franchise impairment from the possible reputational effects of these events. The potential deficiencies in cross-divisional governance and risk control or awareness revealed by the aforementioned matters have led us to incorporate a one-notch downward adjustment for Corporate Behavior in CS's scorecard, which is reflected in the negative outlook.

The affirmation of the bank's baa1 BCA takes account of CS's improved profitability potential and meaningfully lowered operating cost base post its 2015-18 restructuring, providing strong shock absorbers against adverse developments or unexpected events such as recently experienced. The affirmation also considers the bank's strong liquidity and funding profile.


Exhibit 1
**Rating Scorecard - Credit Suisse Group AG - Key financial ratios**




*The baa1 BCA relates to Credit Suisse Group AG's main operating bank, Credit Suisse AG.
*Source: Moody's financial metrics*

## Credit strengths

» Large global wealth management franchise and well-positioned domestic banking franchise provide a significant source of stable earnings

» Strong liquidity position and superior funding profile displaying a favorable term structure

» Solid capitalization provides protection to bondholders against larger unexpected losses

## Credit challenges

» Potential pressure on solvency metrics as a result of financial, regulatory or reputational losses arising from the supply chain funds and Greensill exposures and the losses in relation to exposures to a US-based hedge fund in its Prime Brokerage franchise

» To remediate any findings of significant corporate governance, risk, audit or compliance control shortcomings as well as foster a highly effective risk control and governance framework across segments with strict limit setting and resulting strong oversight on aggregate risks

» Avoid meaningful client attrition and subsequent loss of business stemming from the ongoing uncertainties following the supply chain funds wind-down and US-based hedge fund-related losses

» High reliance of the group's integrated business model on a higher share of capital markets businesses versus other GIBs, with less diversification

» Exposure to leveraged finance and high-yield debt markets presents tail risk, despite robust track record and underwriting standards

## Outlook

» The outlook for Credit Suisse's ratings is negative, reflecting our view of emerging signs of a higher-than-anticipated risk appetite and/or potential deficiencies in its risk management, audit, compliance or governance control processes and frameworks. The potential deficiencies in cross-divisional governance and risk control or awareness revealed by the aforementioned matters have led us to incorporate a one-notch downward adjustment for Corporate Behavior in CS's scorecard, which is reflected in the negative outlook.

» The negative outlook further incorporates potential strain on the bank's financial profile and, in particular, its capital position stemming from possible losses in relation to the aforementioned matters, as well as the potential for client defections and franchise impairment from the possible reputational effects these events might have on the bank's integrated businesses.

## Factors that could lead to an upgrade or a stable outlook

» There is little prospect of higher ratings, as indicated by the negative outlook. The outlook could return to stable if CS demonstrates that any findings of significant corporate governance, risk, audit or compliance control shortcomings relating to its failed hedge fund client and the supply chain funds and Greensill exposures have been fully remediated and are less likely to be repeated.

» A return to a stable outlook would also be conditional upon losses stemming from the exiting of its US hedge fund positions as well as the wind-down of the supply chain funds not resulting in a sustained negative impact on its financial profile, in particular its capital position, and overall franchise.

» Although highly unlikely at present, CS's ratings could be upgraded if the group (1) were to achieve a sustainable improvement in its profitability to well above its communicated targets; (2) significantly curtailed its risk appetite in its investment bank and adjacent segments, in particular with regard to leveraged lending and other non-investment-grade exposures; (3) achieved 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 (4) extended 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.

## Factors that could lead to a downgrade

» The ratings could be downgraded if (1) we determine in part based on findings of investigations or regulatory probes that CS maintains a higher-than-anticipated risk appetite or that any identified shortcomings in the bank's risk control or awareness, audit, compliance or governance frameworks are not fully addressed in a timely manner; (2) CS suffers from additional financial and reputational repercussions such as large unexpected losses, fines and meaningful client attrition, eroding its solvency metrics; (3) CS fails to deliver on the proposed refinements to its business model, in particular if it fails to contain the resources allocated to its capital markets businesses or to constrain costs while growing revenue; or (4) the bank does not manage to meaningfully and sustainably curtail its risk appetite in its capital-markets oriented segments or products.

» The ratings may also be downgraded in the event of a significant slowdown or reversal in the Swiss or global economies, or an unexpected and meaningful deterioration in the group's capital or its liquidity and funding profile.

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

## Key indicators

Exhibit 2

**Credit Suisse Group AG (Consolidated Financials) [1]**

| | 09-20[2] | 12-19[2] | 12-18[2] | 12-17[2] | 12-16[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (CHF Billion) | 815.4 | 782.9 | 764.3 | 791.1 | 813.6 | 0.1[4] |
| Total Assets (USD Billion) | 887.5 | 808.5 | 775.3 | 811.8 | 800.5 | 2.8[4] |
| Tangible Common Equity (CHF Billion) | 53.5 | 50.2 | 45.5 | 46.6 | 43.4 | 5.8[4] |
| Tangible Common Equity (USD Billion) | 58.3 | 51.8 | 46.2 | 47.8 | 42.7 | 8.7[4] |
| Problem Loans / Gross Loans (%) | 1.2 | 0.7 | 0.8 | 0.8 | 0.9 | 0.9[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 18.7 | 17.2 | 16.0 | 17.1 | 16.1 | 17.0[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 5.9 | 4.2 | 4.7 | 4.4 | 5.6 | 5.0[5] |
| Net Interest Margin (%) | 0.9 | 1.1 | 1.1 | 1.0 | 1.2 | 1.1[5] |
| PPI / Average RWA (%) | 2.0 | 1.4 | 1.3 | 0.9 | -0.7 | 1.0[6] |
| Net Income / Tangible Assets (%) | 0.5 | 0.6 | 0.2 | 0.4 | -0.2 | 0.3[5] |
| Cost / Income Ratio (%) | 72.3 | 79.4 | 82.2 | 88.4 | 110.7 | 86.6[5] |
| Market Funds / Tangible Banking Assets (%) | 34.2 | 32.0 | 35.9 | 35.6 | 37.8 | 35.1[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 47.8 | 46.8 | 46.2 | 48.2 | 49.4 | 47.7[5] |
| Gross Loans / Due to Customers (%) | 72.4 | 77.6 | 79.3 | 77.6 | 77.9 | 76.9[5] |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; US GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

*Sources: Moody's Investors Service and company filings*

## Profile

Credit Suisse Group AG is a global banking and financial services group and the holding company of the Switzerland-based bank Credit Suisse AG. It provides private banking, asset and wealth management, and investment banking services to corporate, institutional and government clients, high-net-worth individuals (HNWI) and ultra-high-net-worth individuals (UHNWI) worldwide, as well as affluent and retail clients in Switzerland. As of year-end 2020, it reported total consolidated assets of CHF806 billion and assets under management of almost CHF1.5 trillion.

**The bank's BCA benefits from its Strong+ Macro Profile**

Whilst nearly three-quarters of Credit Suisse's revenues are derived from activities in Switzerland and North America, operating environments to which we currently assign Strong+ and Very Strong - Macro Profiles, respectively, this is partly offset by the bank's sizeable operations in the European Union (Strong) and in the Asia Pacific region (Moderate+), which have weaker Macro Profiles. This results in a Strong+ weighted Macro Profile for Credit Suisse.

## Detailed credit considerations

### Negative adjustment for Corporate Behavior reflects potential deficiencies in CS's risk management, audit, compliance or governance control processes and frameworks

The likely material loss from unwinding concentrated leveraged equity and derivatives' exposures following the failure of a US hedge fund client, in addition to 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 points to emerging signs of a higher-than-anticipated risk appetite or potential deficiencies in CS's risk management and/or risk awareness, audit, compliance or governance control processes and frameworks.

We consider the recent accumulation of credit-negative and financially harmful events as an indication of potential deficiencies in cross-divisional governance and risk control or awareness. Although we anticipate that CS may enhance its governance and risk management practices, including from implementing the results of internal and external investigations, the extent and effectiveness of these measures is uncertain. In addition, the final financial and reputational implications of the aforementioned events for CS are also unclear, and have the potential to cumulatively exert strain on the bank's financial profile. 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 potential franchise and reputational impairment.

Overall, aforementioned matters have led us incorporate a one-notch downward adjustment for Corporate Behavior in CS's scorecard, which is reflected in the negative outlook.

Supporting its current financial profile and baa1 BCA, CS will likely benefit from the strong shock absorption of potential losses by the bank's first-quarter pre-provision earnings, as indicated by the bank's March 16 trading statement. We further expect the bank to maintain its strong liquidity and funding profile, characterized by a peer-leading liquidity coverage ratio (LCR) and an above-average maturity profile of its more confidence-sensitive market funding, supporting its financial strength. Nonetheless, losses potentially resulting from the wind-down of positions in relation to its US hedge fund client as well as its now suspended supply chain funds have the potential to cumulatively exert strain on the bank's financial profile.

**Additional qualitative adjustment continues to capture reliance on capital markets activities**

We generally consider capital markets activities to be both opaque and potentially volatile, posing significant challenges for the management of such activities. The bank's exposure to global investment banking activities will continue to pose risks for creditors due to the volatile revenue profile; the inherent risk-management and risk-governance challenges these businesses present; the opacity of risk taking; the significant market, counterparty and operational risks intrinsic to the group's investment banking business; and the confidence-sensitivity of their customer and funding franchises.

These structural challenges continue to result in a one-notch negative qualitative adjustment to CS's BCA in respect of remaining 'Opacity and Complexity', an adjustment shared with all large GIBs at present.

## The group's integrated business model needs to prove it can sustainably generate a higher share of more predictable earnings

We assign a baa1 Asset Risk score to Credit Suisse AG, four notches below its aa3 initial score.

We have maintained CS's Asset Risk score at baa1, reflective of our Corporate Behaviour adjustment taking account of the possibility that CS's risk appetite may be higher than we had previously anticipated, or that CS's awareness of possible risks and exposures may not have been as acute as previously anticipated. In considering these possibilities and uncertainties concerning CS's risk appetite and risk awareness through a qualitative adjustment, we have maintained CS's Asset Risk score.

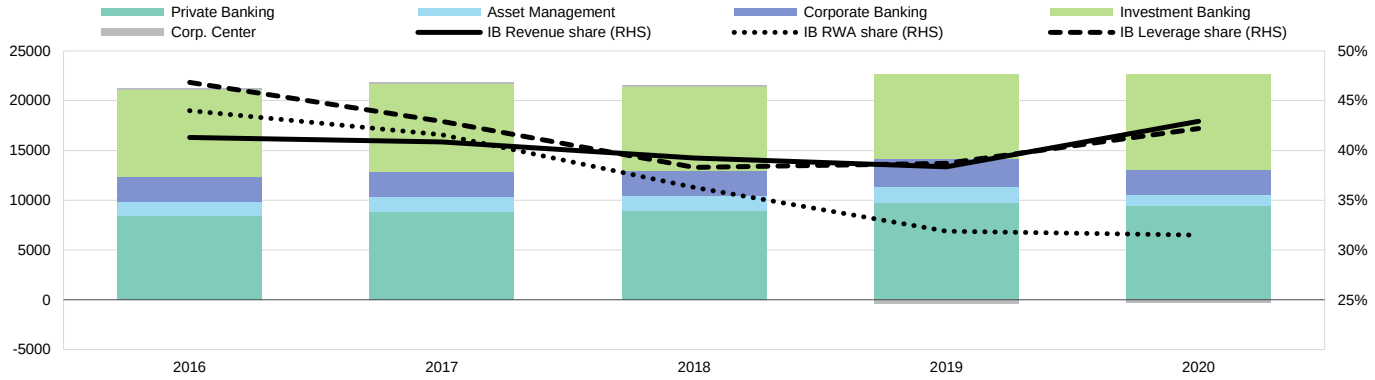
The score positively takes account of the capital and risk allocated to its Investment Bank and capital markets businesses booked in other segments, lowering its inherent reliance on less predictable revenue items, and lifting the returns and operating leverage of the remaining businesses. However, and although CS has curtailed a large number of inherently more volatile product lines during restructuring[1], the remaining negative adjustment captures the group's higher reliance on and exposure to capital markets activities than several of its global investment banks (GIBs) peers as well as the bank's specific exposure to leveraged finance activities.

Looking ahead, and provided the supply chain funds can be wound down in an orderly manner without larger losses or any resulting franchise disruption, we estimate that the group's more stable business divisions – the Swiss Universal Bank (SUB), International Wealth Management (IWM) and the private banking business within Asia Pacific (APAC) – will together consume about two thirds of group risk-weighted assets (RWAs) and 60% of the group's leverage exposure while contributing at least two thirds of group revenue and pretax profit, representing a significant reduction in the resource consumption of the capital markets-oriented business segments from 2015 levels (Exhibit 3). At the same time, CS needs to ensure that its capital markets operations improve their returns on both a relative basis (e.g., measured against RWAs) and an absolute basis, making a sustainably stronger contribution to group profitability that justifies these segments' resource consumption over the medium term, in particular considering the likelihood of a higher-than-anticipated risk taking in these segments as unveiled by recent events.

Exhibit 3

**Capital markets RWA consumption reduced meaningfully**

**Operating income by business line (CHF million) and IB resource consumption (RHS)**




Note: Private Banking (Swiss Universal Bank - Private Clients, International Wealth Management - Private Banking, Asia Pacific excl. APAC IBCM), Asset Management (International Wealth Management - Asset Management), Corporate Banking (Swiss Universal Bank - Corporate & Institutional Clients), Investment Banking (Investment Banking, APAC IBCM - calculated as difference between Global Capital Markets and Investment Banking), Corporate Center; IB RWA and leverage exposures also include Asset Resolution Unit values (pre-2019 Strategic Resolution Unit)

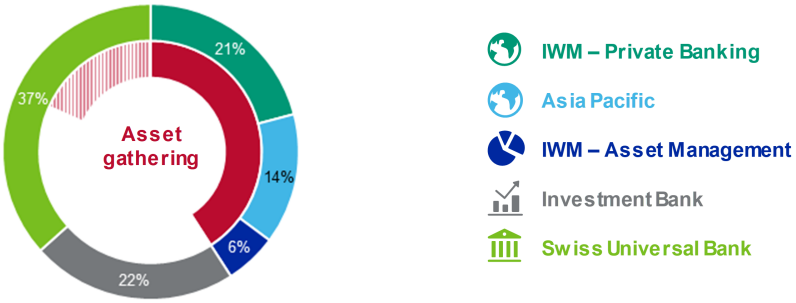
*Sources: Company reports, Moody's Investors Service*

Although CS will continue to rely more on capital markets earnings than several of its closest peers, the increased proportion of earnings generated from the group's asset and wealth management businesses, as well as its Swiss universal banking businesses, should help provide adequate loss absorption capacity to mitigate the higher risks and the inherently greater earnings volatility of the group's capital markets businesses (Exhibit 4).

Exhibit 4

**Asset-gathering and Swiss universal banking businesses help offset capital markets-related earnings volatility**

**Cumulative pretax profit by segment (2017-2020)**




Note: Excludes Corporate Center. The Swiss Universal Bank also generates a meaningful part of its pretax profit from CS's Swiss private banking (asset-gathering) business.
*Sources: Credit Suisse Group AG and Moody's Investors Service estimates*

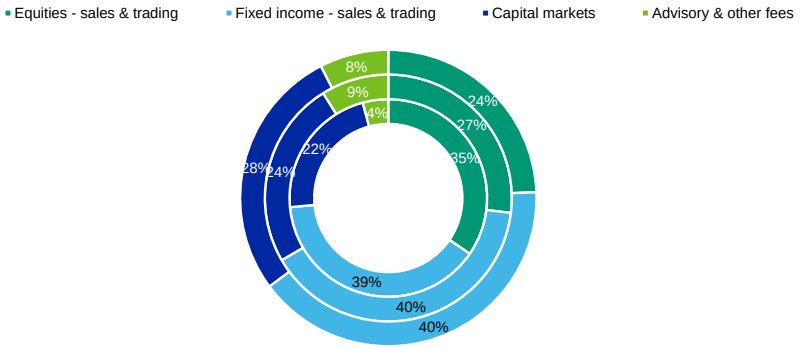
**Leveraged lending remains one key risk within Credit Suisse's capital markets franchise**

CS's capital markets activities rely more on total fixed income sales and trading revenue than peers (Exhibit 5). Albeit reasonably well diversified, revenue generation within the bank's capital markets-oriented franchises relies more on healthy fixed income and equity markets, in particular solid client activity in yield products in debt capital markets and leveraged finance markets. CS also runs a smaller flow business in fixed income – such as FX or Rates – than many of its peers and therefore relies on client demand for yield products that it can cross-sell from its wealth management businesses into the Investment Bank, and vice versa.

Exhibit 5

**CS's capital markets franchise is focused on fixed income, and more concentrated than market-leading peers**

**CS capital markets revenue by type, 2013 versus 2019 and 2020**




Outer circle 2020, mid circle 2019, inner circle 2013. Capital markets includes Debt Capital Markets, Equity Capital Markets and certain advisory revenues. 2020 and 2019 based on USD disclosure; 2013 in Swiss Franc.
*Sources: Company reports, Moody's Investors Service*

Moreover, any adverse development in the leveraged finance and sponsor industry could have a detrimental effect on CS's ability to sustain revenue, and a severe deterioration in global leveraged finance markets would strain its earnings. By maintaining solid underwriting criteria largely in-line with market practices, it has held up its protection against unfavorable developments by negotiating more flexible rates, meaningfully shortening underwriting durations and significantly lowering its trading inventory from the levels seen before and into the 2007/08 financial crisis. In addition, CS's leveraged loan underwriting commitments are significantly smaller and more granular today, limiting the potential loss on any single transaction or in the event of a sudden and sharp market slowdown. This should help the bank withstand collateral value depletion over time and shield it from undue losses.

**Underlying asset quality remains strong**

Putting aside counterparty credit and market risk losses resulting from the aforementioned matters, we believe the group's underlying asset quality in its loan book will remain supported by its low problem loan ratio and generally sound credit risk management capabilities. Historically, CS has had a low level of asset risk within its wealth management and Swiss universal banking businesses, as reflected in the group's low problem loan ratio (1.1% as of 31 December 2020). Given the current market environment, we would also not expect CS to compromise on its credit risk standards despite lending growth that could add greater asset risks in the non-investment banking units, for example its growth ambition in non-standard securities-based lending in IWM and APAC. Given the most recent events, however, we expect CS to at least temporarily scale back on this ambition.

## Higher profitability potential will only show from 2022 onwards

Our assigned ba1 Profitability score reflects our medium-term expectation of a Net Income (NI)/Tangible Assets (TA) ratio of below 0.5% (2020: 0.33%).

We believe the group will continue to benefit from its structurally lower cost base post its 2015-18 restructuring, allowing it to withstand revenue pressures or smaller one-off items. During 2020, these structural benefits supported profitability and helped offset significantly higher loan loss charges; funding market dislocations; as well as relative weakness in CS's less diversified and less flow-oriented investment banking franchise.

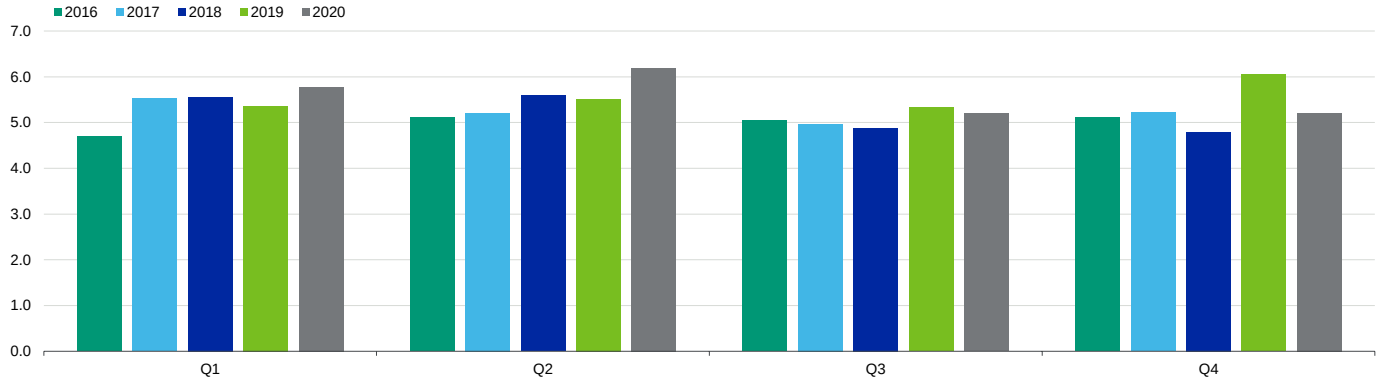
However, the losses likely arising from the unwinding of positions relating to a defaulted US hedge fund client as well as the wind-down of the Greensill-related supply chain finance funds will exert meaningful strain on the bank's ability to generate earnings in-line with prior years' levels. In addition, during the fourth quarter of 2020, CS's earnings already suffered from a CHF414 million impairment charge booked on CS's non-controlling interest in York Capital Management; (2) litigation provisions of CHF757 million; and (3) restructuring and real estate disposal expenses of CHF78 million that could only be partially offset by gains on equity investments of CHF285 million. As a result, CS reported a small net loss in Q4 2020 (adjusted CHF620 million net profit, assuming a 28% tax rate).

Aside these items, pressure on pre-provision profitability could further increase as client-driven trading revenue normalizes. In this regard, CS's comparatively higher dependence on transaction-driven capital market revenues as well as its relatively high exposure to underwriting of leveraged lending and as high-yield debt transactions has the potential to exert meaningful strain on CS's earnings. CS's ability to grow revenue (Exhibit 6) while exerting strong control over its cost base will be key to move close to its medium-term profitability targets in 2022 and potentially beyond, potentially warranting a higher Profitability score.

Exhibit 6

**Credit Suisse will need to sustain revenue in order to keep positive operating leverage**

**Adjusted total revenues, CHF billion**




*Sources: Company reports, Moody's Investors Service*

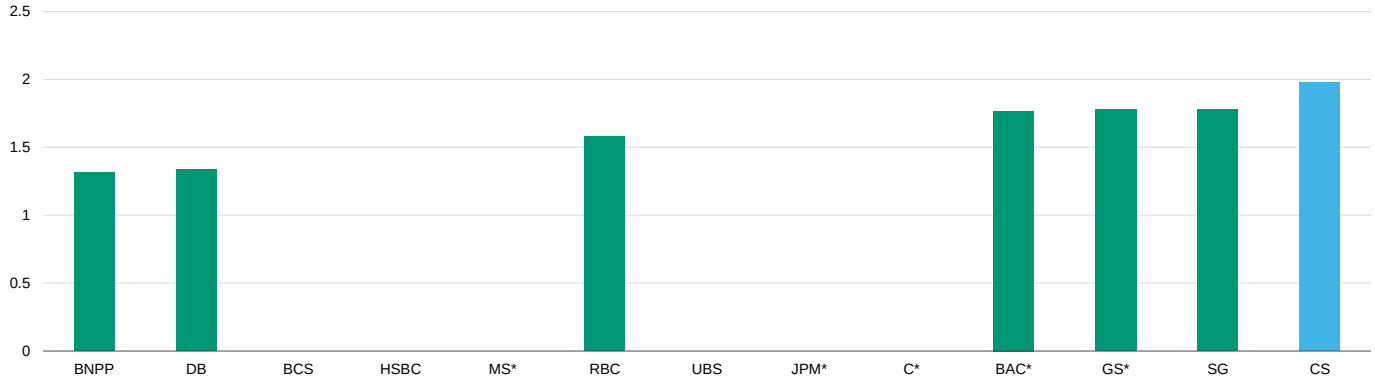
### Solid funding profile and favorable debt maturity profile

Our baa2 Funding Structure score has been assigned two notches above the group's ba1 initial score. The positive adjustment reflects the group's significantly improved total loss-absorbing capacity (TLAC) amounting to CHF93.0 billion as of the end of the fourth quarter (Q4 2019: CHF90.9 billion), corresponding to a TLAC ratio of 33.8%, well above the regulatory requirement of 28.6%. The adjustment further captures the favorable maturity profile and strong quality of CS's long-term debt, displaying an estimated average maturity of almost 6.5 years, superior to many of its global investment banking peers. In addition, the weighted maturity of the bank's total liabilities, excluding deposits and derivatives, is the highest in the peer group (Exhibit 7).

Exhibit 7

**Credit Suisse has the longest funding tenure within its peer group**

**Average maturity of total liabilities excluding deposits and derivatives in years**




Note: As of 31 December 2019; Mid-point approach used for disclosed maturity buckets in absence of more detailed information across all peers. Maturity of 7.5 years applied to >5 year bucket across all banks; *Identifies banks with limited disclosure on the duration of their short-term liabilities. The average duration of peers' short-term liabilities was applied as an approximation.

*Sources: Company reports, Moody's Investors Service*

The bank's TLAC debt issuances have helped extend CS's debt maturity profile over the past few years, reducing the risk of funding market dislocations that might impair its ability to refinance maturing debt. The smoothening of CS's market funding maturities will allow the bank to better manage its funding needs and liquidity across the group, ultimately increasing its flexibility in more volatile markets; for example, if funding spreads move materially – like experienced in March 2020.

According to our calculations, total market funding reliance fluctuated around 35% of tangible banking assets over the past years. Depending on the final regulatory rebates, the proportion of TLAC funding on total market funding will slightly fluctuate, but we expect overall market funding to stay below 35% over time, mainly owing to CS's significant excess funding beyond the Swiss regulator's strict requirements.

As a result, we anticipate that CS will continue to meet its gone-concern Too-Big-To-Fail (TBTF) requirements[2] primarily with senior holding company debt, only partially replacing maturing senior operating (bank) company debt and legacy capital instruments. We, therefore, anticipate CS to be a (small) net negative issuer over the next two years, further lowering its funding costs and supporting its profitability. At the same time, Swiss regulation ensures that CS will largely maintain its maturity profile and level of TLAC debt over the next few years, safeguarding the above-mentioned structural benefits and ensuring funding structure stability.

### Significant positive structural liquidity and comprehensive liquidity management

Our aa3 Liquid Resources score has been assigned at the initial score level and reflects Credit Suisse's sizeable volume of liquid assets and the resulting strong liquidity position.

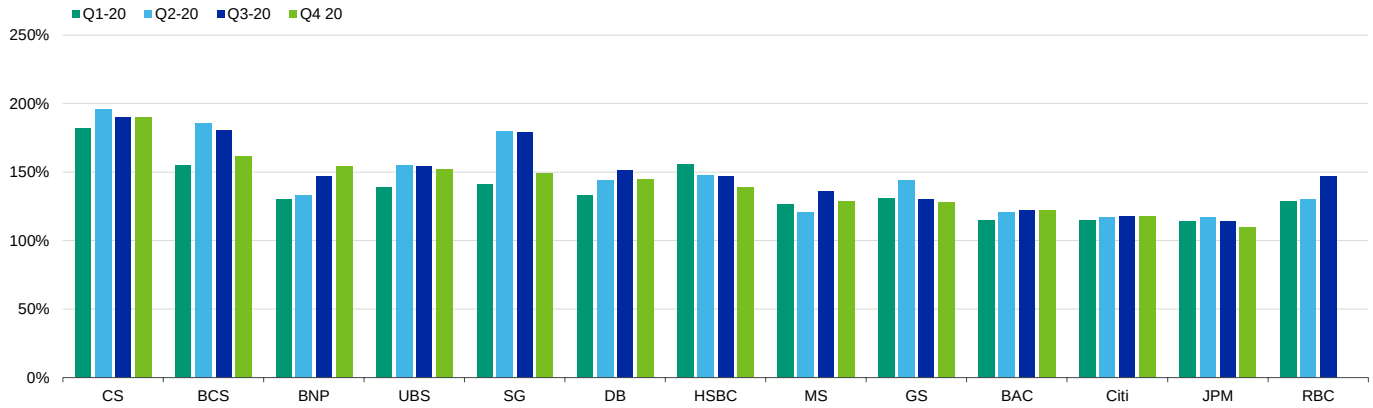
The assigned score contains a one-notch downward adjustment to the initial score to reflect asset encumbrance on a sizeable portion of assets that are designated as liquid in our initial ratio and score. At the same time, we make an offsetting one-notch upward adjustment based on our consideration of the group's conservative management of liquidity across its various branches and subsidiaries.

Management retains a strategy to maintain liquidity well above the group entities' unconsolidated requirements. When combined, these requirements are meaningfully above the group's consolidated regulatory requirements, which will keep its peer-leading LCR well in excess of the 100% regulatory minimum (Exhibit 8). This is further reflected in the group's reported Liquidity Coverage Ratio (LCR) of 190% in Q4 2020.

Exhibit 8

**Credit Suisse's conservative liquidity management supports peer-leading Liquidity Coverage Ratio (LCR)**

**Global Investment Banks' LCR, as of Q4 2020**




*Source: Company reports, Moody's Investors Service*

CS's pool of liquid assets largely consists of cash deposits with central banks, unencumbered government securities, and other highly-rated non-sovereign obligations. We expect Credit Suisse to maintain its strong liquidity position, further benefitting from having prepositioned additional high-quality liquid assets (HQLA) with the Swiss National Bank, that - in conjunction with its high cash on balance sheet and some contingent liquidity through mortgage loans - will also act as an additional buffer in times of potential stress. We estimate high-quality liquid assets (HQLA) to have increased further as of the end of the fourth quarter (Q4 2020 weighted value: CHF204 billion), equivalent to an estimated very strong 26% of total assets.

We believe that maintaining above-average liquidity as well as capital ratios is important in light of the bank's larger global asset and wealth management franchise, where deposits may be more confidence sensitive than traditional retail deposit funding, and may thus expose the bank to potential liquidity stresses in an adverse scenario, for instance a material capital markets or reputational event. In addition, we believe that an extended period without access to wholesale funding would still require significant balance sheet shrinkage that could impair earnings and franchise value. CS is also exposed to sizeable contingent liquidity obligations related to its capital market activities that are not captured in our liquidity and funding ratios.

Overall, CS has an a3 Combined Liquidity Score, derived from its assigned aa3 Liquid Resources score and its assigned baa2 Funding Structure score. The combined score reflects CS's strong liquidity resources mitigating its partial reliance on market funds, as well as the latter's favourable term structure.

## Solid capital position will be largely maintained

Our assigned Capital score of aa2, in-line with the group's initial score, reflects the strengthened capital position and leverage ratio as well as our expectation that the bank's generally conservative approach to capital management will help to largely sustain the achieved capital levels and ratios despite regulatory pressures, reducing risks for creditors.

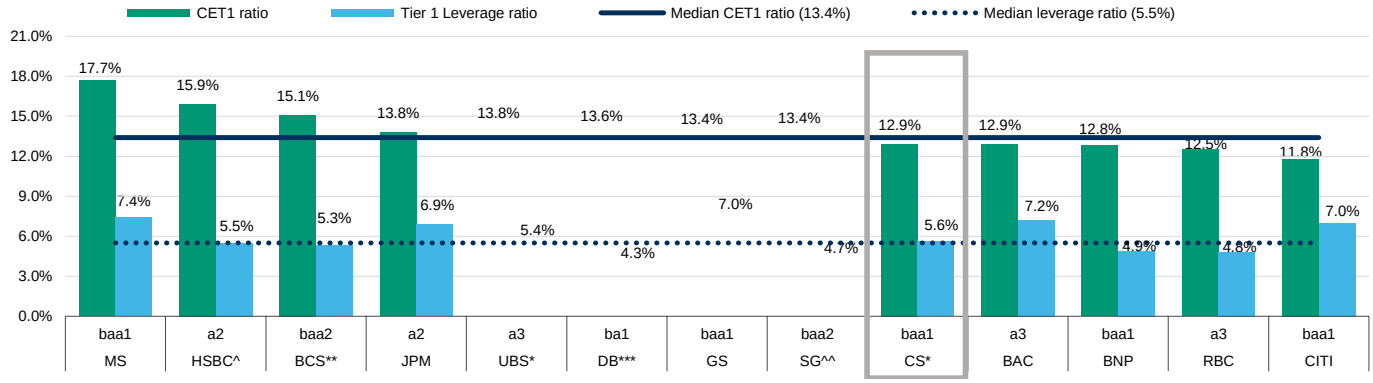
CS reported a CET1 capital ratio of 12.9% as of the end of the fourth quarter, down 10 basis points (bps) sequentially and up 20 bps year-over-year, well above the group's 12% target level and including CHF11 billion of regulatory-driven RWA inflation. For the first half of this year, CS expects this ratio to stay at or above 12.5%. CS further reported an almost unchanged 3.9% CET1 leverage ratio and 5.6% Tier 1 leverage ratio[3] (Q4 2019: 4.0% and 5.5%, respectively).

We expect these ratios, as well as our Tangible Common Equity (TCE) ratio to be maintained around their current levels, despite recent events and the anticipated temporary effects from the coronavirus-related government support programs, further regulatory inflation and moderate underlying business growth. To preserve capital, CS could put on hold its CHF1.0 - CHF1.5 billion share buyback program launched in January 2021.

Exhibit 9

**Credit Suisse's CET1 and Tier 1 leverage ratios remained stable around the median of Moody's-rated GIBs**

**Common Equity Tier 1 (CET1) and Tier 1 leverage ratios, as of 31 December 2020**




Notes: (1) Basel III fully phased in advanced approach for all US banks; (2) Tier 1 leverage ratio for US banks is the supplemental leverage ratio (SLR).
*UBS and CS leverage ratios reflect Common Equity Tier plus Low Trigger Additional Tier 1 and High-Trigger Additional Tier 1 securities. For the computation of the leverage ratio, the Swiss regulator allowed for a temporary exclusion of cash at central banks until 01 January 2021. The ratios shown here do not include this benefit.
**Barclays (BCS) leverage is reflective of the spot UK leverage ratio.
***DB Q4 2020 leverage exposure includes certain central bank balances ("Euro-based exposures facing Eurosystem central banks") that could normally be excluded following the European Central Bank's decision (EU) 2020/1306 until 27 June 2021. Excluding these items, DB's leverage ratio would have been 4.7%.
^HSBC's Q4 2020 leverage exposures are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.
^^For SG the reported CET1 ratio was 13.2% at the end of December on a fully-loaded basis.
*Sources: Companies' results presentations and financials, Moody's Investors Service*

## Environmental, social and governance (ESG) considerations

The global banking sector has been classified as "Low" risk in our environmental (E) risk heatmap[4] and as "Moderate" risk in our social (S) risk heatmap[5].

In line with our general view for the banking sector, CS has a low exposure to Environmental risks. For Social risks, we also place CS in-line with our general view for the banking sector, indicating a moderate exposure to such risks. This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets.

Governance[6] is highly relevant for CS, as it is to all banks.

The potential deficiencies in cross-divisional governance and risk control or awareness revealed by a likely material loss from unwinding concentrated leveraged equity and derivatives' exposures following the failure of a US hedge fund client, in addition to 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, have led to a one-notch downward adjustment for Corporate Behavior in CS's scorecard. As details of the underlying fact patterns will only emerge slowly over time, we believe CS will meanwhile remain subject to heightened reputational, financial as well as regulatory risks.

Owing to the complexity of its global operations, CS's ratings incorporate a one-notch downward adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard. A complex legal structure and global footprint increases management challenges and the risk of strategic errors. In the case of CS and other global investment banks, it is also combined with complex capital market activities, with significant exposure to derivatives and structured products, which also makes reporting and oversight more challenging, as illustrated during the 2007/08 financial crisis.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

Credit Suisse AG and Credit Suisse Group AG are subject to the Swiss bank resolution framework, which we consider to an operational resolution regime. Therefore, we apply our Advanced LGF analysis, assuming residual tangible common equity (TCE) of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. We further assign a 100% probability to deposits being preferred to senior unsecured debt, thereby reflecting depositor preference by law in Switzerland.

**For Credit Suisse AG's junior deposits and senior unsecured debt**, our Advanced LGF analysis indicates an extremely low loss-given-failure, resulting in three notches of rating uplift from the bank's baa1 Adjusted BCA, prior to government support. This is because of the substantial volume of deposits and the significant amount of bank-level senior unsecured debt outstanding, supported by the high volume of subordinated debt classes, namely senior unsecured and subordinated debt at the holding company level, protecting bank-level depositors and senior unsecured debt holders. In the unlikely event of failure or resolution, this would allow for losses to be spread across a larger volume of creditors, lowering the severity of loss for individual senior bank depositors or debt holders.

**The Baa1 rating for senior unsecured debt issued by or guaranteed by Credit Suisse Group AG** is in-line with the bank-level BCA, reflecting our view that such obligations are likely to face a moderate loss-given-failure, resulting in no additional rating uplift as a result of our LGF analysis.

In a Swiss bank resolution, we expect the probability of government support for holding company obligations to be 'Low'. In response to regulatory requirements, including the Swiss TBTF capital requirements and the Financial Stability Board's Total Loss Absorbing Capital (TLAC) rules, Credit Suisse has issued a significant volume of long-term holding company debt, providing a larger buffer to absorb losses in resolution. Our forward-looking view on CS's senior holding company debt ratings continues to factor in the added loss absorbency we expect CS to maintain.

**For junior securities issued or guaranteed by Credit Suisse AG or Credit Suisse Group AG**, our LGF analysis indicates a high loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We incorporate additional notching for junior subordinated and preference share instruments reflecting the risk of coupon suspension and distressed exchange prior to a potential resolution.

### Government support considerations

Swiss authorities have implemented[7] a credible and flexible bank resolution framework that includes provisions for burden-sharing with senior creditors. We therefore believe there is a 'Low' probability of government support for parent holding company debt issued (or guaranteed) by Credit Suisse Group AG. This reflects the resolution objectives of Swiss authorities, who have espoused single point of entry (SPE) resolution as their preferred strategy, exposing holding company creditors to loss in order to shield the bank's own senior creditors and depositors.

The deposit and senior debt ratings for Credit Suisse AG and its branches benefit from one notch of government support uplift, reflecting our view that there remains a 'Moderate' probability of government support for those rating classes at the operating company level.

For junior securities issued or guaranteed by Credit Suisse AG or Credit Suisse Group AG, the potential for government support is 'Low' and the ratings on those securities do not include any related uplift.

### Counterparty Risk Ratings (CRRs)

Our CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

**Credit Suisse's CRR is positioned at Aa3/P-1**

The bank's CRR is positioned four notches notches above the baa1 Adjusted BCA, based on (1) the very high buffer against default provided by subordinated instruments to the more senior CRR liabilities; and (2) one additional notch of government support uplift assuming a 'Moderate' level of support.

### Counterparty Risk Assessment (CR Assessment)

Our CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

**Credit Suisse's CR Assessment is positioned at Aa3(cr)/P-1(cr)**

The bank's CR Assessment is positioned four notches above the baa1 Adjusted BCA, based on (1) the buffer against default provided by more subordinated instruments, primarily senior unsecured debt, to the senior obligations represented by the CR Assessment; and (2) government support uplift assuming a 'Moderate' level of support.

## Methodology and scorecard

### Methodology

The principal methodology we use in rating Credit Suisse is the Banks methodology, published in March 2021.

### About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 10
**Credit Suisse Group AG**

| Macro Factors | | | | | | |
|---|---|---|---|---|---|---|
| **Weighted Macro Profile** | **Strong +** | **100%** | | | | |

| **Factor** | **Historic Ratio** | **Initial Score** | **Expected Trend** | **Assigned Score** | **Key driver #1** | **Key driver #2** |
|---|---|---|---|---|---|---|
| Solvency | | | | | | |
| Asset Risk | | | | | | |
| Problem Loans / Gross Loans | 1.2% | aa3 | ↔ | baa1 | Market risk | Operational risk |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | 18.7% | aa2 | ↔ | aa2 | Risk-weighted capitalisation | Expected trend |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 0.4% | ba1 | ↔ | ba1 | Expected trend | Return on assets |
| Combined Solvency Score | | a1 | | a3 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 32.0% | ba1 | ↔ | baa2 | Term structure | Market funding quality |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 46.8% | aa3 | ↔ | aa3 | Stock of liquid assets | Asset encumbrance |
| Combined Liquidity Score | | baa1 | | a3 | | |
| Financial Profile | | | | a3 | | |
| Qualitative Adjustments | | | | Adjustment | | |
| Business Diversification | | | | 0 | | |
| Opacity and Complexity | | | | -1 | | |
| Corporate Behavior | | | | -1 | | |
| Total Qualitative Adjustments | | | | -2 | | |
| Sovereign or Affiliate constraint | | | | Aaa | | |
| BCA Scorecard-indicated Outcome - Range | | | | baa1 - baa3 | | |
| Assigned BCA | | | | baa1 | | |
| Affiliate Support notching | | | | 0 | | |
| Adjusted BCA | | | | baa1 | | |

| **Balance Sheet** | **in-scope (CHF Million)** | **% in-scope** | **at-failure (CHF Million)** | **% at-failure** |
|---|---|---|---|---|
| Other liabilities | 283,999 | 34.7% | 363,992 | 44.5% |
| Deposits | 388,995 | 47.6% | 314,300 | 38.4% |
| Preferred deposits | 287,856 | 35.2% | 246,050 | 30.1% |
| Junior deposits | 101,139 | 12.4% | 68,250 | 8.3% |
| Senior unsecured bank debt | 63,510 | 7.8% | 60,956 | 7.5% |
| Dated subordinated bank debt | 4,015 | 0.5% | 2,685 | 0.3% |
| Senior unsecured holding company debt | 48,107 | 5.9% | 46,863 | 5.7% |
| Dated subordinated holding company debt | 170 | 0.0% | 0 | 0.0% |
| Preference shares(holding company) | 4,501 | 0.6% | 4,501 | 0.6% |
| Equity | 24,535 | 3.0% | 24,535 | 3.0% |
| Total Tangible Banking Assets | 817,831 | 100.0% | 817,831 | 100.0% |

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating Assessment |
|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument volume + subordination | Sub-ordination | Instrument volume + subordination | Sub-ordination | De Jure | De Facto | | | | |
| Counterparty Risk Rating | 17.1% | 17.1% | 17.1% | 17.1% | 3 | 3 | 3 | 3 | 0 | a1 |
| Counterparty Risk Assessment | 17.1% | 17.1% | 17.1% | 17.1% | 3 | 3 | 3 | 3 | 0 | a1 (cr) |
| Deposits | 25.4% | 17.1% | 25.4% | 17.1% | 3 | 3 | 3 | 3 | 0 | a1 |
| Senior unsecured bank debt | 17.1% | 9.6% | 17.1% | 9.6% | 3 | 3 | 3 | 3 | 0 | a1 |
| Senior unsecured holding company debt | 9.6% | 3.9% | 9.6% | 3.9% | 0 | 0 | 0 | 0 | 0 | baa1 |
| Dated subordinated bank debt | 3.9% | 3.6% | 3.9% | 3.6% | -1 | -1 | -1 | -1 | 0 | baa2 |
| Dated subordinated holding company debt | 3.9% | 3.6% | 3.9% | 3.6% | -1 | -1 | -1 | -1 | 0 | baa2 |
| Holding company non-cumulative preference shares | 3.6% | 3.0% | 3.6% | 3.0% | -1 | -1 | -1 | -1 | -2 | ba1 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 3 | 0 | a1 | 1 | Aa3 | Aa3 |
| Counterparty Risk Assessment | 3 | 0 | a1 (cr) | 1 | Aa3(cr) | |
| Deposits | 3 | 0 | a1 | 1 | Aa3 | Aa3 |
| Senior unsecured bank debt | 3 | 0 | a1 | 1 | | Aa3 |
| Senior unsecured holding company debt | 0 | 0 | baa1 | 0 | (P)Baa1 | Baa1 |
| Dated subordinated bank debt | -1 | 0 | baa2 | 0 | | (P)Baa2 |
| Dated subordinated holding company debt | -1 | 0 | baa2 | 0 | | (P)Baa2 |
| Holding company non-cumulative preference shares | -1 | -2 | ba1 | 0 | Ba1 (hyb) | Ba1 (hyb) |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Investors Service*

## Ratings

Exhibit 11

| Category | Moody's Rating |
|---|---|
| **CREDIT SUISSE GROUP AG** | |
| Outlook | Negative |
| Senior Unsecured | Baa1 |
| Subordinate Shelf | (P)Baa2 |
| Pref. Stock Non-cumulative | Ba1 (hyb) |
| **CREDIT SUISSE INTERNATIONAL** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Bkd Bank Deposits | Aa3/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Issuer Rating | Aa3 |
| **CREDIT SUISSE AG** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Bank Deposits | Aa3/P-1 |
| Baseline Credit Assessment | baa1 |
| Adjusted Baseline Credit Assessment | baa1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Issuer Rating | Aa3 |
| Senior Unsecured | Aa3 |
| Subordinate MTN | (P)Baa2 |
| Commercial Paper | P-1 |
| Other Short Term | (P)P-1 |

| | |
|---|---|
| **CREDIT SUISSE (USA), INC.** | |
| Outlook | Negative |
| Bkd Senior Unsecured | Aa3 |
| **CREDIT SUISSE AG (SYDNEY) BRANCH** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Deposit Note/CD Program | --/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Senior Unsecured -Dom Curr | Aa3 |
| Commercial Paper | P-1 |
| **CREDIT SUISSE AG (NEW YORK) BRANCH** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Bank Deposits | Aa3/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Senior Unsecured | Aa3 |
| Subordinate MTN | (P)Baa2 |
| Commercial Paper | P-1 |
| Other Short Term | (P)P-1 |
| **CREDIT SUISSE GROUP FUNDING (GUERNSEY) LTD** | |
| Outlook | Negative |
| Bkd Senior Unsecured | Baa1 |
| **CREDIT SUISSE AG (GUERNSEY) BRANCH** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Senior Unsecured | Aa3 |
| Other Short Term | (P)P-1 |
| **CREDIT SUISSE AG (NASSAU) BRANCH** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Senior Unsecured | Aa3 |
| Subordinate MTN | (P)Baa2 |
| Other Short Term | (P)P-1 |
| **CREDIT SUISSE AG (TOKYO) BRANCH** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Senior Unsecured -Dom Curr | Aa3 |
| **CREDIT SUISSE AG (LONDON) BRANCH** | |
| Outlook | Negative |
| Counterparty Risk Rating | Aa3/P-1 |
| Bank Deposits | Aa3/-- |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Senior Unsecured | Aa3 |
| Subordinate | Baa2 |
| Other Short Term | (P)P-1 |

*Source: Moody's Investors Service*

## Endnotes

1 This was largely focused on exiting Rates and Macro products.

2 For further information, please see "Credit Suisse and UBS: Swiss TLAC Regulation Drives Issuance of Loss-Absorbing Debt, Increasing Protection for Senior Creditors"

3 The ratios include CHF110 billion of cash held at central banks, ignoring the temporary exclusion of these amounts by the Swiss regulator for the computation of the CET1 and Tier 1 leverage ratios. Ratios would be 4.5% and 6.3%, respectively, if excluding.

4 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

5 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases. Pressure on profitability can be particularly severe for small banks that have limited options to mitigate declines in net interest income, their main revenue source. By contrast, large institutions equipped with resources to invest in new businesses or technology will be somewhat able to overcome these challenges.

6 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates due to poor governance, such as break-down in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

7 These steps, including the ongoing efforts towards making the largest Swiss banks, including Credit Suisse, resolvable by establishing holding company structures and creating a Swiss banking subsidiary, are important steps in overcoming the main obstacles to their resolvability; namely their global reach and high interconnection with other parts of the financial system.

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