S&P Global
Ratings

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Credit Suisse Group AG (Holding Company)

Credit Suisse AG (Lead Bank)

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Table Of Contents

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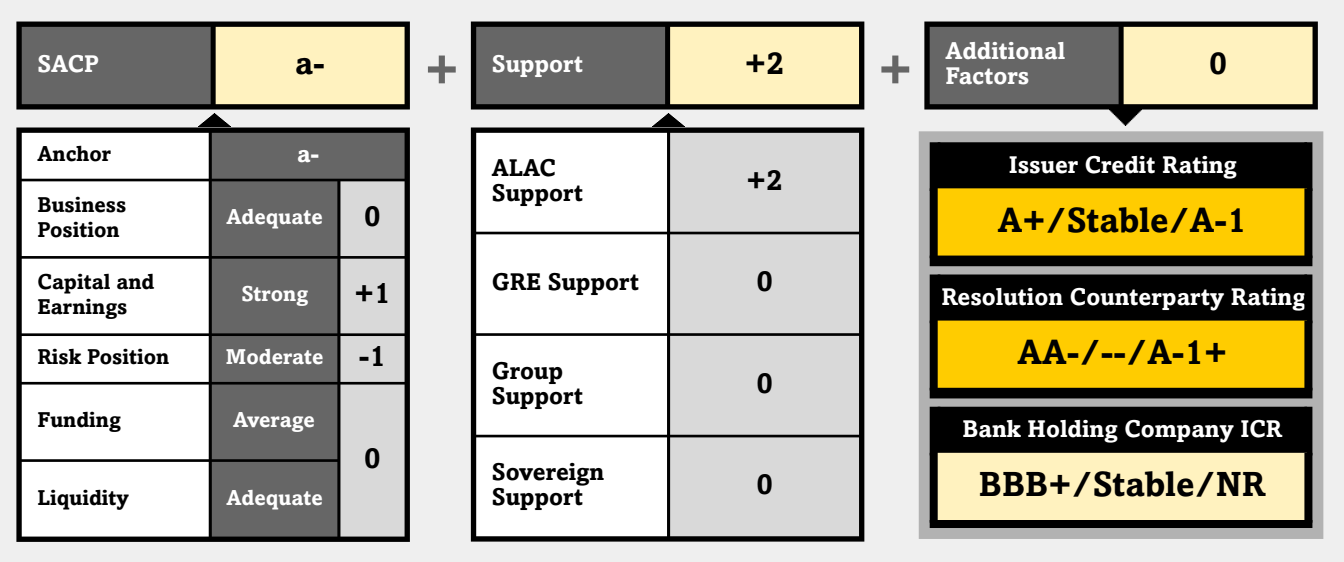


Major Rating Factors

Strengths:	Weaknesses:
• High levels of capital to absorb losses as a going concern and in a resolution scenario. • Stable and low-risk earnings from leading global wealth management franchise and Swiss retail, private, and corporate banking. • Demonstrated sound asset quality and a highly collateralized lending book.	• Market, operational, and legal risks from large markets-related businesses. • Material exposure to leveraged finance and some areas of structured products, which could be particularly sensitive in downturns. • Activities are less diverse by geography and business line than those of higher rated peers.

Outlook: Stable

The stable outlook reflects our view that the group's strong franchise in global wealth management and domestic corporate and retail banking will continue to support earnings, despite adverse global economic and market conditions. In addition, the group's strong capital reserves and prudent risk management will help to buffer against increasing risks steaming from the COVID-19 pandemic. This includes our expectation that economic risk for some countries of operations could increase as a result of the pandemic.

Our stable outlook also reflects continued gradual rebalancing of the group's revenue mix away from investment banking and trading-related activities, and our expectations of only low litigation costs.

Downside scenario

We could lower the ratings on Credit Suisse Group AG, Credit Suisse AG, and other operating subsidiaries if credit losses and fair-value adjustments for loans materially exceed our current base-case projections, or if material new litigation risks emerge. This could be followed by downward rating pressure if these risks jeopardized our projection of a risk-adjusted capital (RAC) ratio comfortably above 10%. The group was affected by high-profile governance issues in 2019, which culminated with the departure of its CEO. Even if we do not expect these issues will have an impact on the group's strategy or weaken its reputation, we could also lower the rating if a fundamental management control failure was revealed as a result of the ongoing regulatory investigation into the recent corporate espionage episode, or if we saw a repetition of other governance-related issues.

Upside scenario

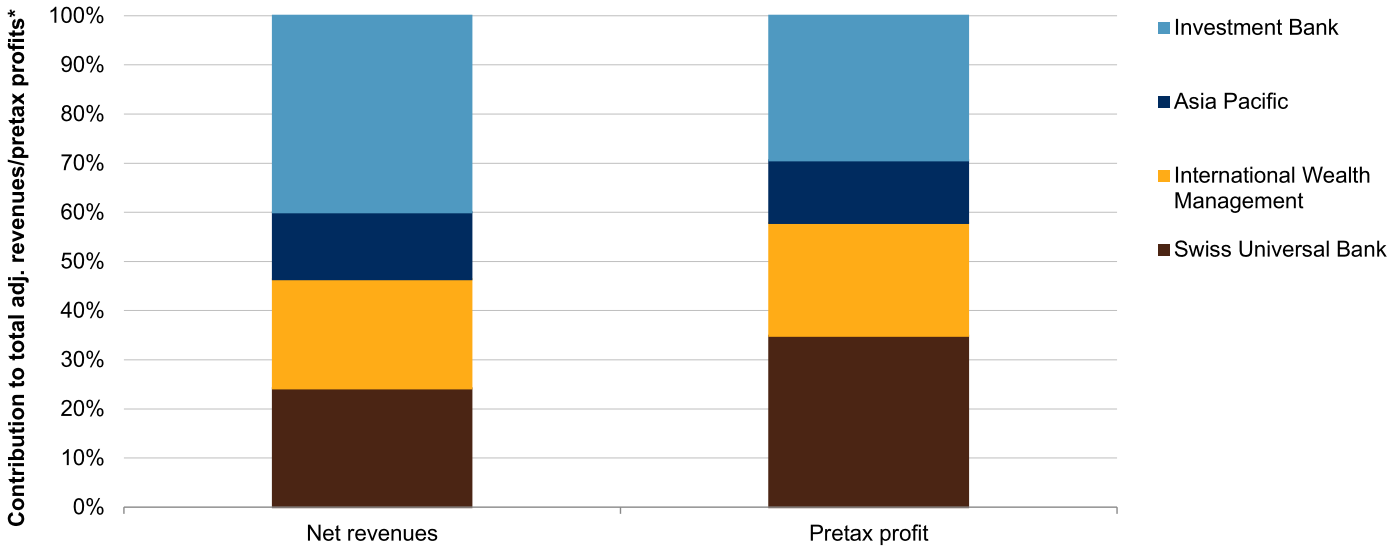
We consider an upgrade of holding company Credit Suisse Group AG and its operating subsidiaries including Credit Suisse AG as unlikely over our 12-24 month outlook horizon, particularly in light of macroeconomic pressures from the COVID-19 pandemic. We consider banking groups with higher group stand-alone credit profiles (group SACPs) typically have more diversified and larger franchises than Credit Suisse and show longer records of sound profitability across their business lines.

Rationale

We base our ratings on Credit Suisse on its globally diversified business mix with a high and increasing share of wealth management activities. Credit Suisse is a universal banking group that ranks among the largest global wealth managers, having a particular focus on ultra-high-net-worth individuals, and among the top-10 banks globally in terms of aggregate capital market revenue. Next to UBS Group AG, it is also the leading retail, private, and corporate bank in Switzerland, which contributes to about half of the group's pre-tax income and which we continue to regard as one of the most resilient countries worldwide.

Chart 1

Wealth Management And Swiss Business Are Biggest Revenue Sources
Credit Suisse group operating revenues by division for first nine months of 2020



*Based on adjusted revenues and adjusted pretax profits for each division (excludes Corporate Center).
Sources: Credit Suisse disclosure and S&P Global Ratings.

We think the group's focus on Switzerland and wealth management clients significantly mitigates the risk to revenue and from certain pockets of credit exposure amid the COVID-19 pandemic, which has led to a weakened economic and operating environment for some of Credit Suisse's main markets.

Credit Suisse delivered a robust performance over the first three quarters in 2020. While interest income declined, a strong improvement in operating noninterest revenue mitigated this, and also allowed Credit Suisse to partially buffer the COVID-19-induced increase in credit losses amounting to Swiss franc (CHF) 1 billion over the first nine months of 2020 (compared with CHF0.2 billion one year ago over the same period). For 2020, this translates into annualized credit loss expenses of approximately 40 basis points of gross customer loans.

Credit Suisse recently rebalanced its revenue and capital resources away from confidence-sensitive and volatile investment banking and trading-related activities toward wealth management and domestic activities. This resulted in stronger efficiency and de-risking, which supports our projection of the group's relative resilience against economic headwinds.

We continue to believe the overall effect of the economic downturn on the bottom line is likely to remain contained.

We expect net income for 2020 will drop only marginally compared with 2019. Our forecast also includes additional provisioning needs for damages stemming from the legal dispute regarding warranties for a U.S. residential mortgage

backed security (RMBS) issued in 2007. The claim against Credit Suisse could amount to $680 million. While Credit Suisse already provisioned for the risks with $300 million, we expect that the group is likely to book up to $380 million in fourth-quarter 2020 as a buffer against the yet unknown outcome of the legal suit.

In our base case, we assume Credit Suisse will achieve a pretax profit of at least CHF3.2 billion in 2020. As with peers, we expect risk costs will remain elevated in 2021 relative to the historic trend, allowing Credit Suisse to only slowly return to growth. We project return on tangible equity at about 6% for 2020 and 5%-7% in 2021, depending on the pace of economic recovery.

Supported by its strong year-to-date performance, Credit Suisse paid out the second tranche of its 2019 dividend after a request by Swiss regulator FINMA to defer half the payout earlier this year. This was a precautionary measure given the high uncertainty around the course of the pandemic and its impact on global economies and banks (see Credit Suisse And UBS Accept Regulator's Request To Partly Defer Dividends Despite Strong First-Quarter Performances, April 9, 2020, on RatingsDirect).

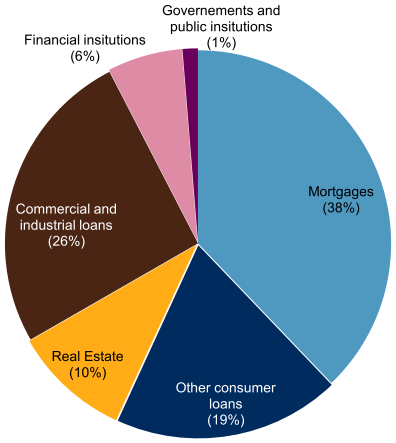
The recent payment does not affect Credit Suisse' regulatory capital ratios or our RAC ratio because the dividend was initially only postponed, not cancelled, and therefore had already been deducted from capital. In our view, Credit Suisse is appropriately capitalized for the risks it faces. It shows strong capital ratios, underpinned by our projection of its RAC ratio at 12%-13% by 2022, broadly in line with 13% at end-2019, which is higher than that of most peers. We expect peer relativities will persist.

Credit Suisse has a high share of investment banking business. In particular, it is one of the leading banks in leveraged finance, which we generally regard as an activity with elevated risks. As a result, Credit Suisse's risk profile remains complex and entails market, litigation, and other nonfinancial risks, that our RAC ratio may not fully capture. Therefore, in combination, our strong capital and earnings and moderate risk position assessments are neutral to the ratings, in line with its main peers.

The assessment also reflects our expectation that the asset quality of Credit Suisse's large and predominantly domestic lending book will remain very strong. The group's lending is dominated by well-collateralized exposures that should help maintain adequate asset quality compared with global peers, especially those with a larger share of unsecured consumer lending. We expect Credit Suisse's asset quality metrics will remain dented over our two-year projection period as a result of the COVID-19 pandemic, but anticipate that the resilience of the Swiss economy and high collateral levels—including mortgage and Lombard loans will help to offset the damage. Our calculation of nonperforming assets increased by about one third to 0.85% of customer loans. However, reflecting group's prudent provisioning policy during nine months of 2020, coverage of nonperforming loans by reserves has increased, so that the share of nonperforming exposures after deducting loss reserves declined, and represented a relatively low 1.8% of the group's capital base (S&P Global Ratings-adjusted total capital) as of Sept. 30, 2020.

Chart 2

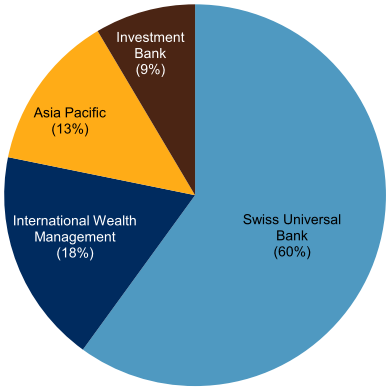
Credit Exposures Focused On Mortgages And Collateralized Consumer Loans
Gross loans and advances to customers at Sept. 30, 2020



Source: Credit Suisse.

Chart 3

Strong Domestic Focus In The Loan Book
Gross loans and advances to customers at Sept. 30, 2020



Source: Credit Suisse.

We also anticipate that the group will retain an adequately matched liquidity and funding profile amid the challenging environment. In our assessment, we consider both the bank's active management of asset and liability mismatches and the inherent funding risk, which we generally associate with a low share of guaranteed deposits. In our view, the group has successfully navigated the current period of economic shocks and financial market volatility, which led to higher drawdowns on liquidity facilities by its corporate customers and higher margin requirements for derivatives transactions. Credit Suisse was able to tap the term funding market early in the current crisis, demonstrating its access to investors, albeit at higher costs, similar to peers.

For more information, please see full report, Credit Suisse Group AG, published June 8, 2020, on RatingsDirect.

Table 1

Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. CHF)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	816,463	782,341	763,931	791,324	814,735
Customer loans (gross)	290,902	295,884	287,887	277,894	273,871
Adjusted common equity	36,845	36,216	35,295	34,366	31,050
Operating revenues	16,215	20,959	19,590	19,483	18,444
Noninterest expenses	11,413	15,657	15,114	16,502	17,627
Core earnings	3,262	3,615	3,191	2,024	124

CHF--Swiss franc.* As of end-September 2020.

Table 2

Credit Suisse AG--Business Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	17,168.0	22,484.0	20,920.0	20,900.0	20,323.0

Table 2

Credit Suisse AG--Business Position (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Commercial banking/total revenues from business line	11.2	12.1	12.1	11.9	12.4
Retail banking/total revenues from business line	29.6	32.8	32.0	30.4	32.4
Commercial & retail banking/total revenues from business line	40.7	44.9	44.1	42.3	44.8
Trading and sales income/total revenues from business line	42.8	38.8	36.2	38.3	40.0
Corporate finance/total revenues from business line	11.7	10.9	15.2	15.9	14.5
Asset management/total revenues from business line	6.5	7.3	7.4	7.3	6.6
Other revenues/total revenues from business line	(1.7)	(1.9)	(2.9)	(3.8)	(5.9)
Investment banking/total revenues from business line	54.5	49.8	51.4	54.2	54.5
Return on average common equity	9.0	7.8	4.7	(2.3)	(6.3)

*As of end-September 2020.

Table 3

Credit Suisse AG--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
S&P Global Ratings' RAC ratio after diversification	N/A	14.3	12.9	13.0	11.1
Adjusted common equity/total adjusted capital	75.2	75.2	78.1	75.2	75.2
Net interest income/operating revenues	27.8	33.5	35.8	33.7	41.0
Fee income/operating revenues	47.5	47.1	54.3	53.3	52.3
Market-sensitive income/operating revenues	20.5	13.7	4.9	7.2	1.7
Cost to income ratio	70.4	74.7	77.2	84.7	95.6
Preprovision operating income/average assets	0.8	0.7	0.6	0.4	0.1
Core earnings/average managed assets	0.5	0.5	0.4	0.3	0.0

RAC--Risk adjusted capital. N/A--Not applicable.*As of end-September 2020.

Table 4

Credit Suisse AG--Risk Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(9.3)	(11.1)	(10.3)	(8.8)
Total managed assets/adjusted common equity (x)	22.3	21.7	21.8	23.2	26.4
New loan loss provisions/average customer loans	0.4	0.1	0.1	0.1	0.1
Net charge-offs/average customer loans	0.1	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.9	0.6	0.6	0.6	0.7
Loan loss reserves/gross nonperforming assets	64.1	50.9	50.1	56.5	50.5

RWA--Risk weighted assets. N/A--Not applicable.* As of end-September 2020.

Table 5

Credit Suisse AG--Funding And Liquidity

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Long-term funding ratio	75.0	74.7	80.0	77.3	76.0
Stable funding ratio	106.2	105.3	112.6	110.3	114.8
Short-term wholesale funding/funding base	27.0	27.3	21.6	24.4	25.7
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	2.0	1.8	1.9
Net broad liquid assets/short-term customer deposits	25.7	28.1	39.1	40.9	50.7
Short-term wholesale funding/total wholesale funding	53.2	51.3	44.8	47.2	46.9
Narrow liquid assets/3-month wholesale funding (x)	2.1	1.8	2.4	2.4	2.4

*As of end-September 2020.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Credit Suisse Group AG, June 8, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- Credit Suisse And UBS Accept Regulator's Request To Partly Defer Dividends Despite Strong First-Quarter Performances, April 9, 2020
- Credit Suisse CEO's Exit May Not Instantly Disperse Clouds Over The Group, Feb. 7, 2020
- Credit Suisse AG Upgraded To 'A+' On Sustained Earnings Improvements; Outlook Stable, May 21, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	**a-**	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 10, 2020)*

Credit Suisse AG	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Senior Unsecured	A+
Subordinated	BBB
Issuer Credit Ratings History	
21-May-2019	A+/Stable/A-1
25-Jun-2018	A/Positive/A-1
09-Jun-2015	A/Stable/A-1
Sovereign Rating	
Switzerland	AAA/Stable/A-1+
Related Entities	
Banco Credit Suisse Mexico S.A.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+

Ratings Detail (As Of December 10, 2020)*(cont.)	
Casa de Bolsa Credit Suisse Mexico S. A. de C. V.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Credit Suisse AG (Cayman Islands Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Credit Suisse AG (Guernsey Branch)	
Senior Unsecured	A+
Credit Suisse AG (London Branch)	
Senior Unsecured	A+
Subordinated	BBB
Credit Suisse AG (New York Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Credit Suisse AG (Sydney Branch)	
Senior Unsecured	A+
Credit Suisse AG (Tokyo Branch)	
Commercial Paper	
Local Currency	A-1
Credit Suisse (Deutschland) AG	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Credit Suisse Group AG	
Issuer Credit Rating	BBB+/Stable/NR
Junior Subordinated	BB
Junior Subordinated	BB-
Senior Unsecured	BBB+
Credit Suisse International	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Senior Unsecured	A+
Credit Suisse (Schweiz) AG	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Credit Suisse Securities (Europe) Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Credit Suisse Securities Sociedad de Valores S.A.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+

Ratings Detail (As Of December 10, 2020)*(cont.)	
Credit Suisse Securities (USA) LLC	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse (Singapore Branch)	
Senior Unsecured	A+
Credit Suisse (USA) Inc.	
Issuer Credit Rating	A+/Stable/A-1
Senior Unsecured	A+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.