S&P Global
Ratings

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Credit Suisse Group AG (Holding Company)

Credit Suisse AG (Lead Bank)

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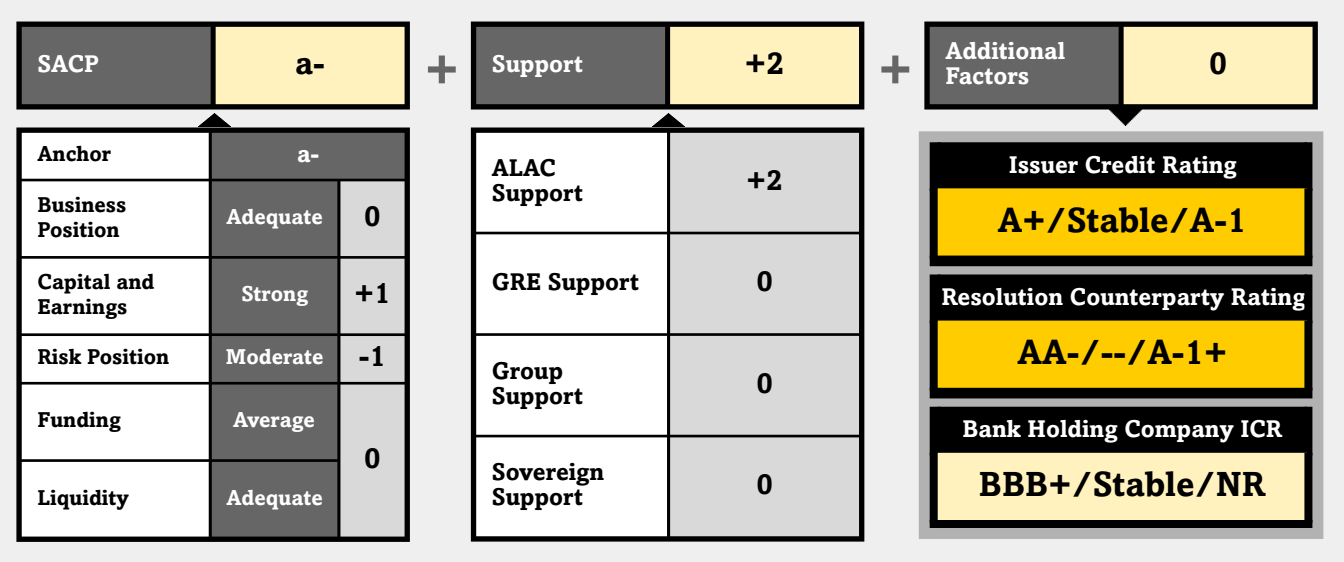


Major Rating Factors

Strengths:	Weaknesses:
• High levels of capital to absorb losses as a going concern and in a resolution scenario. • Stable and low-risk earnings from global wealth management franchise and Swiss retail, private, and corporate banking. • Demonstrated sound asset quality and a highly collateralized lending book.	• Market and operational risks from large markets-related businesses, which still represent a high share of revenues. • Leading global franchise strength in wealth management, but overall activities are less diverse by geographies and business than higher rated peers.

Outlook: Stable

The stable outlooks reflect our view that the group's franchise in global wealth management and domestic corporate retail banking will continue to support group earnings. Furthermore, we think the rebalancing of the group's revenue mix away from investment banking and trading-related activities will be gradual. The stable outlooks also reflect our assessment that successive restructuring at Credit Suisse has ended. We also consider the group will sustain strong capitalization and the risk of material one-off charges from litigation, for example, has diminished.

We consider an upgrade of the group holding company, Credit Suisse Group AG (CSG) and its operating subsidiaries including Credit Suisse AG (CSAG) as unlikely over our standard outlook horizon of the next 12-24 months.

We consider that 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. Moreover, for the issuer credit ratings on CSAG and on the group's other core operating subsidiaries, we would limit the uplift for additional loss-absorbing capacity (ALAC) to '+1' from '+2' currently, if we were to raise the Group SACP on Credit Suisse to 'a' from 'a-'. Therefore, such an improvement would not benefit the issuer credit ratings. In line with our ALAC methodology, this would reflect incremental uncertainty regarding how a resolution would be handled in a severe stress scenario for banks that are far away from potential distress. However, changes in the Group SACP could have implications for our ratings on CSG and its debt issuances, and on the operating banks' hybrid debt instruments.

We could lower the ratings on CSG, CSAG, and other operating subsidiaries in the case of any large unexpected charges in what we consider more vulnerable segments, like leveraged finance or structured credits, or if material new litigation risks emerged, especially if they jeopardized our projection of a RAC ratio comfortably above 10%. We could also lower our ratings if, contrary to our expectations, the group were to embark on a more aggressive lending strategy to boost earnings.

Rationale

We base our ratings on Credit Suisse on its globally diversified business mix with a growing share of wealth management activities, and with a strong footprint and domicile in Switzerland. Credit Suisse continues to improve its earnings capacity following completion of its restructuring initiatives at year-end 2018, and overall is now performing in line with peers. An offsetting factor is the relatively large size of Credit Suisse's markets-related activities and their lower risk-adjusted profitability.

In our view, Credit Suisse is appropriately capitalized for the risks it faces. It shows strong capital ratios, underpinned by our projection of its risk-adjusted capital (RAC) ratio of 12.0%-12.5% by 2021. Furthermore, the group has reduced the risk profile of its investment banking activities and strengthened its risk management and compliance functions over the last few years. That said, Credit Suisse's risk profile remains complex. In particular, it is one of the leading banks in leveraged finance, which we generally regard as an activity with elevated risks. Its business mix also exposes Credit Suisse to a range of market, litigation, and other non-financial risks, similar to its main peers.

We anticipate that the group will retain an adequately matched liquidity and funding profile. This remains underpinned by high amounts of customer deposits and excess coverage of potential outflows of short-term wholesale funding by liquid assets.

These factors lead to an 'a-' Group SACP. We add two notches of uplift to arrive at the long-term ICR on Credit Suisse AG and the other operating subsidiaries to reflect that Credit Suisse will maintain substantial buffers of bail-in-able debt instruments.

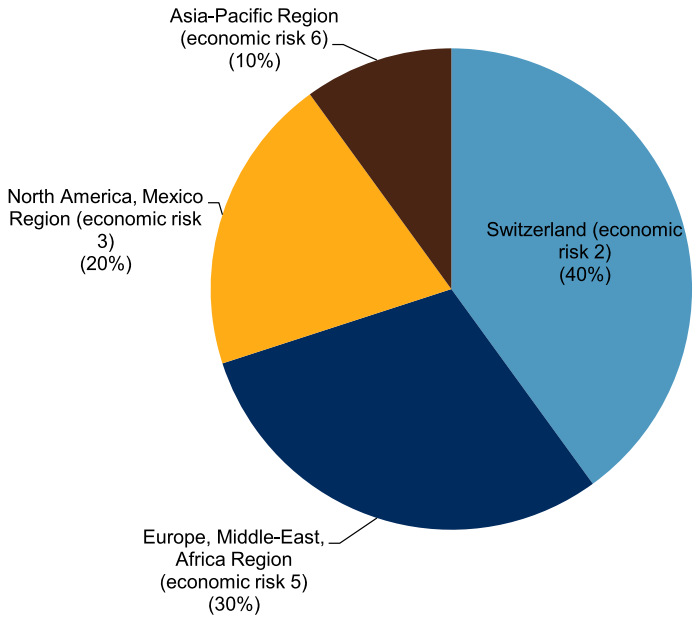
We set the resolution counterparty ratings (RCRs) on Credit Suisse AG and subsidiaries in Switzerland and the U.K. one notch above our 'A+' long-term ICRs, while we align our RCR on U.S.-based Credit Suisse Securities (USA) LLC with its 'A+' ICR.

Anchor: 'a-', owing to the Swiss home market and a global blend of exposures

The 'a-' anchor reflects Credit Suisse's regulatory domicile, Switzerland, and its geographic mix of credit exposure. It benefits from the high share of exposures to Switzerland.

Chart 1

Credit Suisse Group's Weighted-Average Economic Risk Benefits From Strength Of Switzerland



Sources: Credit Suisse disclosure and S&P Global Ratings. Data reflects gross credit exposure by geography as of Dec. 31, 2018 (rounded to nearest 5%).

We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. We establish a weighted-average economic risk score for Credit Suisse's

mix of exposures of '3' on a scale of 1-10 (1 is the lowest risk and 10 is the highest). In our assessment, we consider that our regional average economic risk scores are conservative relative to our estimate of underlying country-by-country exposures. The '3' score for Credit Suisse is weaker than the '2' score for banks operating in Switzerland only, but not to the extent that it would negatively affect the anchor. This could be the case if the weighted-average score were to deteriorate toward '4'.

Our economic risk score of '2' for Switzerland is supported by the country's highly diversified and competitive economy, very high household income levels, and banks' prudent loan underwriting standards. However, it also reflects that risks remain, owing to the cumulative rise in Swiss house prices over the past few years. Although imbalances remain moderate in a global context, they have led the regulator to enact macroprudential measures to contain growth in mortgage indebtedness. We recognize that house price growth has cooled since the beginning of 2014, while lending has recently picked up again after several years of moderate growth. In our view, house prices and household indebtedness remain historically high. The very high mortgage debt level is mitigated by the large amount of financial assets, including pensions, held by households in Switzerland.

Our industry risk score of '2' primarily reflects the banking sector stability and a relatively high share of deposit funding. Banks' net interest margins continue to decline gradually, given the pressure on deposit margins from the negative yield environment. This is partly offset, however, by higher margins on lending products, fee income from investment advisory-related activities, and cost management. As a result, banks are still able to generate returns on core banking products that are adequate to meet their cost of capital. Moreover, in our view, the Swiss regulator's initiatives are more stringent than those in other European banking industries.

Table 1

Credit Suisse Group AG Key Figures

		--Year-ended Dec. 31--			
(Mil. CHF)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	779,269	763,931	791,324	814,735	815,801
Customer loans (gross)	294,679	287,887	277,894	273,871	269,855
Adjusted common equity	36,091	35,295	34,366	31,050	36,064
Operating revenues	10,341	19,590	19,483	18,444	21,878
Noninterest expenses	7,868	15,114	16,502	17,627	19,281
Core earnings	1,689	3,191	2,024	124	1,750

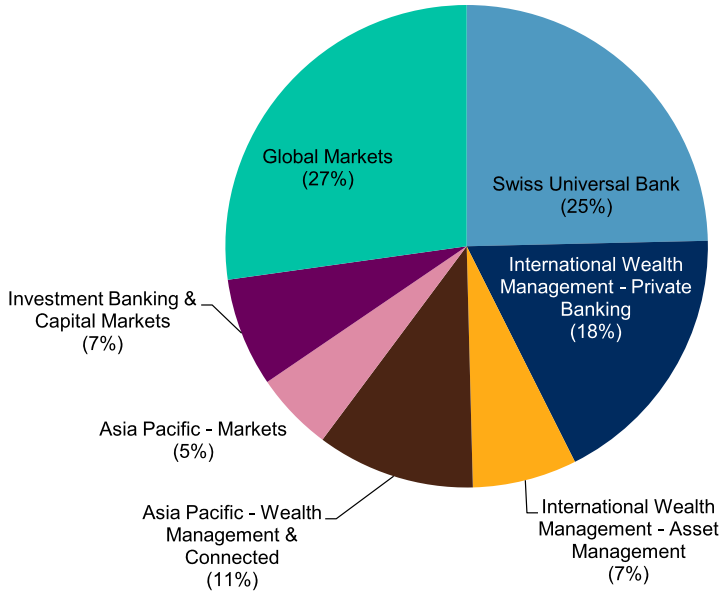
*Data as of June 30.
CHF--Swiss Franc.

Business position: One of the largest global wealth managers

Credit Suisse is a diversified 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 revenues. Next to UBS AG, it is also the leading retail, private, and corporate bank in Switzerland. At the end of 2018, the group completed a deep three-year restructuring program adapting its business model and cost structure to a changing regulatory and market environment. The restructuring rebalanced revenue and capital resources away from investment banking and trading-related activities towards the group's wealth management and domestic activities.

Chart 2

Wealth Management And Swiss Business Biggest Revenue Sources
Credit Suisse group operating revenues by division for first six months of 2019



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

We view this rebalancing as a positive for the stability of Credit Suisse's businesses. We consider the continuing business volumes from its domestic business and its wealth management activities to be more predictable through potential economic and market fluctuations and less confidence sensitive than its investment banking and trading-related activities. Its wealth management and asset management divisions manage assets worth CHF1.5 trillion. They demonstrate low volatility in quarterly revenues, sound recurring net inflows of assets under management, and a stable trend in net earnings margin on assets under management.

Similar to peers, a competitive investment bank offering is a key part of Credit Suisse's business model. It allows the group to service ultra high-net-worth individuals and corporates globally. Rising revenues from collaboration between business divisions are supporting group profitability. However, we consider the share of group revenues from investment banking and global markets divisions including Asia-Pacific Markets to still be above peer average. For the six months ended June 30, 2019, they contribute about 40% of total operating revenues but only 25% of group pretax profit (adjusted for non-recurring items and the impact of residual non-strategic activities in the Asset Resolution Unit). This is unlikely to change materially in the near term although the group's more stable wealth management activities are likely to grow at a faster pace than its investment banking and trading-related activities.

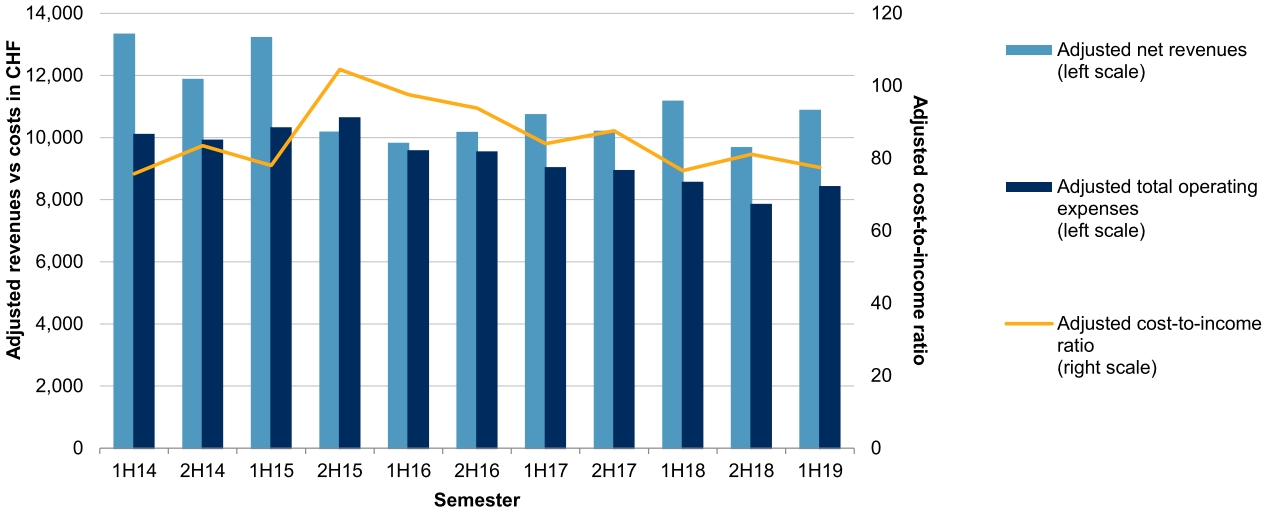
Our business position assessment also reflects that the starting point for our ratings (the 'a-' anchor) on Credit Suisse is

higher than for its global peers because it is domiciled in Switzerland, while it is exposed to similar competitive dynamics in its investment banking activities as these peers. In our assessment, we compare Credit Suisse with other banks that have major global franchises in wealth management and investment banking. This includes UBS, Morgan Stanley, Deutsche Bank, Barclays, BNP Paribas, Societe Generale, and large U.S. universal banks. Compared with UBS, its closest peer which we assess in a higher business position category, we regard Credit Suisse's wealth management franchise as smaller, somewhat more narrowly focused on being a leading bank in the ultra high-net-worth individuals segment, and geographically not present in the large U.S. market.

Credit Suisse's management has demonstrated a sound ability to execute on its operational plans. In 2015 following senior management change, the group started later than many peers in adapting its business model and cost structure to a changing regulatory and market environment. Therefore, over the three-year restructuring period until year-end 2018 the group's earnings initially took a harder hit from the slump in capital markets activities than many of its peers, and by exit costs from winding down non-strategic businesses and illiquid trading positions. However, the bank has made steady progress on its restructuring initiatives. It managed to cut operating and funding costs in line with plans, reduce risk exposures ahead of target, and ultimately lifted operating revenues since their mid-2016 level. This was achieved despite temporary market headwinds and a declining industrywide global fee pool for investment banking and trading.

Chart 3

Restructuring Trimmed Costs, Lifted Revenues Since Mid-2016, While Reducing Risk Exposure
Credit Suisse group (consolidated) -- semi-annual revenues and expenses



Source: Credit Suisse disclosure and S&P Global Ratings. Figures are based on Credit Suisse's adjusted net revenues and operating expenses. They exclude fair value impact from movements in their own credit spreads, real estate gains, and gains/losses on business sales, goodwill impairments, restructuring expenses, and major litigation provisions as reported by Credit Suisse. Cost-to-income ratio as adjusted total operating expenses divided by adjusted net revenues. CHF--Swiss franc.

Credit Suisse has also been preparing for the U.K.'s expected exit from the EU, assuming that Credit Suisse's material U.K. subsidiaries, like other U.K. financial firms, will lose their right to "passport" or sell their services across the EU. Among other things, the group has invested in the expansion of its Spanish and German operations. These moves should ensure that the group can continue servicing clients from the date when the U.K. will leave the EU even if the U.K. and the EU do not ratify a withdrawal agreement that allows for a certain period of continuity.

Table 2

Credit Suisse Group AG Business Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (mil. CHF)	10,968	20,920	19,483	18,868	22,174
Commercial banking/total revenues from business line	11.7	12.3	12.8	10.9	8.7
Retail banking/total revenues from business line	40.2	40.6	41.6	42.6	35.5
Commercial & retail banking/total revenues from business line	52.0	52.9	54.4	53.4	44.2
Trading and sales income/total revenues from business line	36.1	32.3	28.5	29.1	41.0
Corporate finance/total revenues from business line	7.4	10.4	20.7	22.2	14.3
Asset management/total revenues from business line	7.1	7.3	7.7	7.0	6.0
Other revenues/total revenues from business line	(2.5)	(2.9)	(11.4)	(11.8)	(5.5)
Investment banking/total revenues from business line	43.5	42.7	49.2	51.4	55.2
Return on average common equity	7.7	4.7	(2.3)	(6.3)	(6.7)

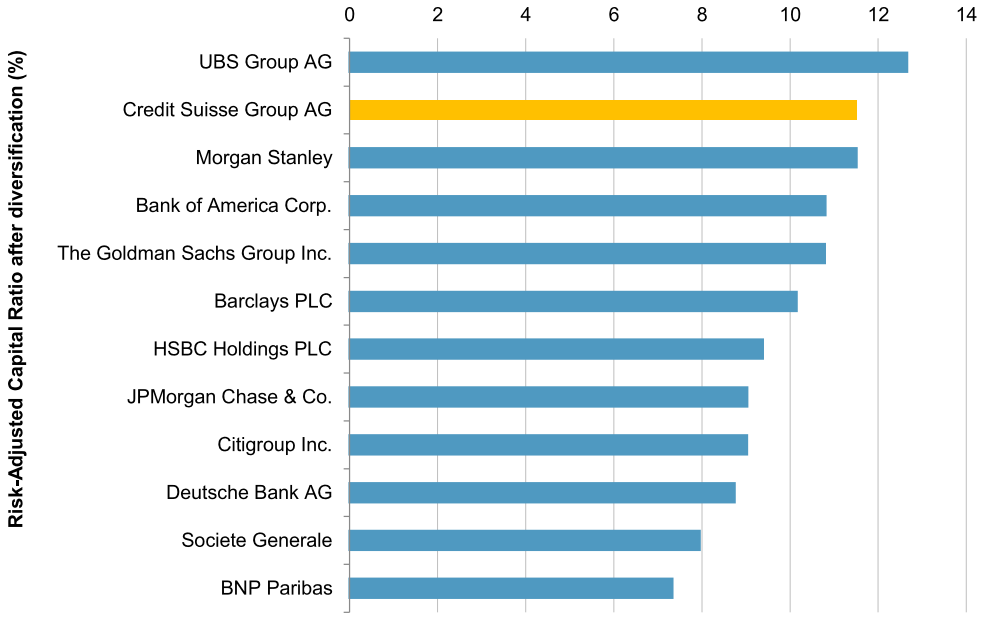
*Data as of June 30. CHF--Swiss franc.

Capital and earnings: Strong capital ratios, earnings now in line with peers

Credit Suisse shows strong capital ratios. Its RAC ratio of 11.5% as of Dec. 31, 2018, is higher than that of several international peers, and we expect this strength to persist. We expect its RAC to further improve to about 12.0%-12.5% by 2021 based on our risk exposure and earnings projections, its plans for shareholders pay-out, and hybrid capital issuance.

Chart 4

Credit Suisse's RAC Ratio Stronger Than Most Peers
2018 RAC ratios for Credit Suisse and peers*



Source: S&P Global Ratings. *RAC ratios are as of Dec. 31, 2018. All RAC ratios are calculated at the group level.

The group also shows a sound 12.5% regulatory risk-weighted common equity tier 1 (CET1) ratio on a fully-loaded basis at June 30, 2019. Management aims for a ratio of at least 12.5% at year-end 2019. This compares with a 10.268% minimum regulatory requirement effective Jan. 1, 2020 assuming an unchanged countercyclical buffer requirement of 0.268% from year-end 2018.

Credit Suisse's regulatory capital target for 2019 already anticipates that by 2022 the group will have to hold more capital even if exposures were to remain static. It considers the effects of the upcoming implementation of final Basel III reforms. Starting in 2020, the reforms will increase the regulatory risk-weights associated with certain exposures of Credit Suisse, in particular its trading book exposures in 2022, while keeping the minimum capital ratio requirement constant. The reform might result in additional increases in requirements after 2022.

These rising regulatory requirements mean that Credit Suisse is unlikely to lower its CET1 capital base from current levels. Moreover, Credit Suisse is subject to a going concern (Tier 1) leverage ratio requirement under Swiss regulation, which will rise to 5%, the fully loaded requirement, effective Jan. 1, 2020. The leverage ratio requirement is currently the binding capital constraint on the group, given Credit Suisse's actual ratio of 5.3% as of June 30, 2019.

The projected further improvement of the RAC ratio of Credit Suisse is underpinned by the bank's issuance plans for Additional Tier 1 (AT1) hybrid capital instruments. Management exercised call rights on several Tier 1 hybrid capital

instruments in the second half of 2018. Issuance of new Tier 1 capital during 2018 only partly replaced these maturities. Headroom remains to partially replenish to the regulatory maximum eligible amount. Therefore, we anticipate that the bank will continue to increase its stock of AT1 issuances, underpinned by year-to-date new issuance.

Our capital projection takes into account that management has announced its plan to pay out at least 50% of net income from 2019 onward while investing about 20% in business growth and earmarking about 30% as an additional capital safety buffer for effects of regulatory changes. Finetuning of payouts will be through a combination of ordinary dividends and share buybacks. The bank is executing on a share buyback program for 2019 of at least CHF1.0 billion, subject to market and economic conditions, and up to CHF1.5 billion. It anticipates launching a similar program for 2020.

We assume Credit Suisse might achieve a pretax profit of about CHF5 billion in 2019, rising to about CHF6 billion by 2021, which is a strong improvement from only CHF3.4 billion in 2018. Our earnings projection is more conservative than management's estimation for return on tangible equity (RoTE) of 10%-11% in 2019 assuming a flat revenue environment. In our view, management's estimation implies pretax profit of CHF5.5 billion-CHF6 billion for 2019 considering a tax rate of about 30%. We remain cautious regarding the extent that capital markets and lower for longer interest rates will support revenue generation. Although the group has achieved an RoTE of 10% in the quarter ending June 30, 2019, we see a range of unresolved political risks such as global trade tensions or Brexit, which continues to affect investor confidence globally.

Based on our earning assumptions, Credit Suisse would achieve an earnings buffer of 80 basis points (bps) to 100 bps on the group's S&P Global Ratings' risk-weighted assets (RWAs) over the next three years. This is broadly commensurate with the projected average of its peers. Our earnings buffer metric compares banks' normalized operating income to S&P Global Ratings RWAs, with normalized operating income representing pre-provision operating income after deducting both one-off items and our estimate of normalized "through the cycle" credit losses.

Table 3

Credit Suisse Group AG Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	16.3	16.2	18.9	18.0	18.0
S&P Global Ratings' RAC ratio before diversification	N/A	11.5	11.7	12.4	12.0
S&P Global Ratings' RAC ratio after diversification	N/A	12.9	13.0	14.7	14.3
Adjusted common equity/total adjusted capital	77.6	78.1	75.2	75.2	75.2
Net interest income/operating revenues	34.2	35.8	33.7	41.0	42.5
Fee income/operating revenues	47.5	54.3	53.3	52.3	47.6
Market-sensitive income/operating revenues	12.0	4.9	7.2	1.7	6.8
Noninterest expenses/operating revenues	76.1	77.2	84.7	95.6	88.1
Preprovision operating income/average assets	0.6	0.6	0.4	0.1	0.3
Core earnings/average managed assets	0.4	0.4	0.3	0.0	0.2

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Credit Suisse Group AG--Risk Adjusted Capital Framework Data

(Mil. CHF)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	104,524	3,535	3.4	244	0.2
Institutions and CCPs	53,680	9,933	18.5	14,795	27.6
Corporate	185,455	98,226	53.0	146,733	79.1
Retail	194,983	32,255	16.5	62,776	32.2
Of which mortgage	111,763	18,523	16.6	36,421	32.6
Securitization§	48,166	12,538	26.0	27,382	56.8
Other assets†	15,101	22,775	150.8	26,789	177.4
Total credit risk	601,909	179,262	29.8	278,718	46.3
Credit valuation adjustment					
Total credit valuation adjustment	--	5,743	--	7,466	--
Market Risk					
Equity in the banking book	1,981	8,375	422.8	16,780	847.0
Trading book market risk	--	18,643	--	26,794	--
Total market risk	--	27,018	--	43,574	--
Operational risk					
Total operational risk	--	71,038	--	62,911	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	283,060	--	392,668	100
Total Diversification/ Concentration Adjustments	--	--	--	(43,633)	(11)
RWA after diversification	--	283,060	--	349,035	89
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		45,935	16.2	45,179	11.5
Capital ratio after adjustments‡		45,935	16.1	45,179	12.9

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CHF -- Swiss Franc. Sources: Company data, S&P Global Ratings.

Risk position: Exposure to capital market fluctuations, limited litigation risk

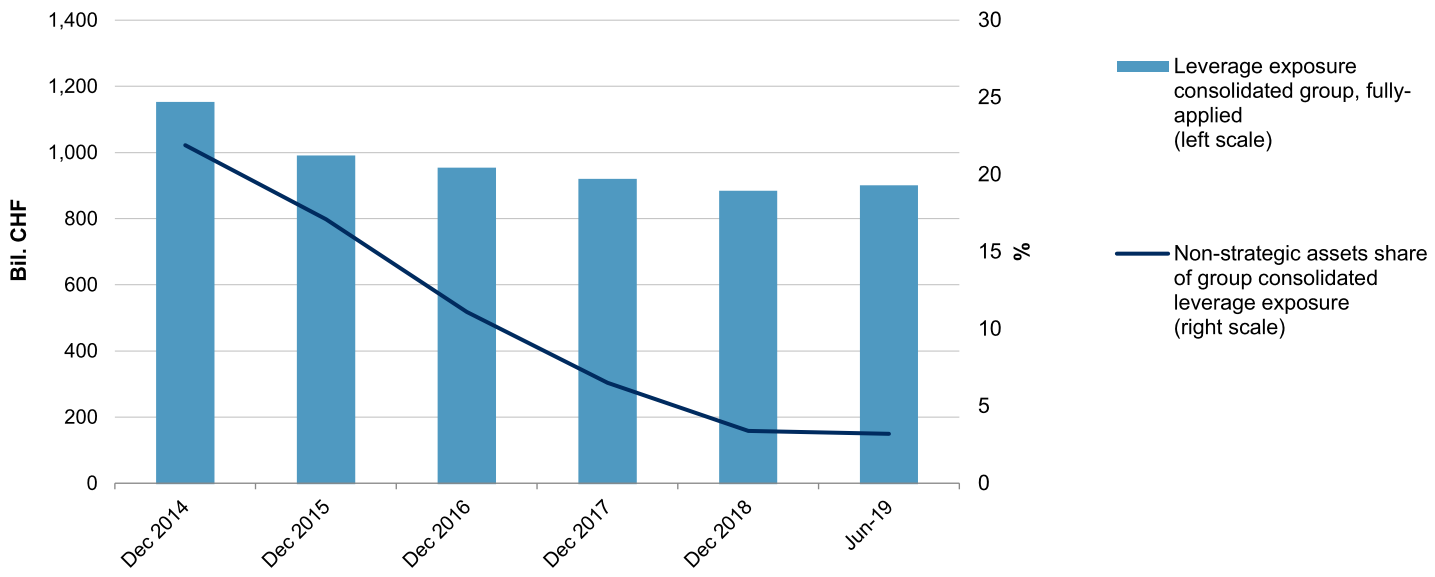
Credit Suisse has reduced the risk profile of its investment banking activities and materially strengthened its risk management and compliance functions as part of its 2015 to 2018 restructuring. Furthermore, the asset quality of its large and predominantly domestic lending book remains very strong. This should reduce revenue volatility and revaluation risk on the bottom line.

That said, Credit Suisse's risk profile remains complex and entails market, operational, and non-financial 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. This reflects our view that Credit Suisse is appropriately capitalized for the risks it faces.

Credit Suisse has reduced its trading exposure to illiquid and risky activities since the end of 2015. Most importantly, at year-end 2018 it has largely managed to wind down a sizable portfolio of about CHF169 billion (at year-end 2015) of nonstrategic assets ahead of management's initial target. In addition, it has focused on reducing its exposure to potential tail risk, should market conditions deteriorate sharply, by focusing on client-oriented activities. Its multiple of stressed value-at risk over value-at-risk declined to 2x at year-end 2018 from 3x at year-end 2015, which illustrates this improvement.

Chart 5

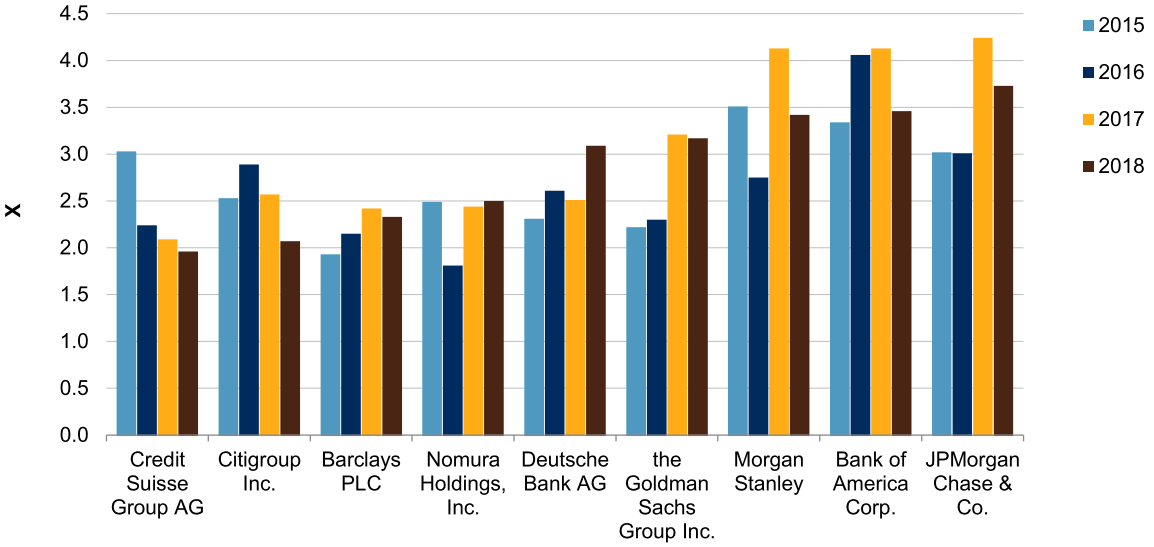
Restructuring Cut Leverage Exposure And Non-Strategic Assets
Evolution of Credit Suisse group leverage exposure and non-strategic assets



Source: Credit Suisse disclosure and S&P Global Ratings. Leverage exposure metric on a regulatory look-through basis. CHF--Swiss franc.

Chart 6

Evolution Of Credit Suisse Market Risk Metrics Underpin Reduced Tail Risk Exposure
Stressed VaR/VaR for global banks with major trading operations



Sources: Company disclosures and S&P Global Ratings. Annual average of regulator VaR and stressed VaR data cited in periodic Pillar 3 reports.

We expect that asset quality metrics will remain strong over our two-year projection period given the resilience of the Swiss economy and high collateral levels including mortgage and Lombard loans. Nonperforming exposures after deducting existing loss reserves, represent a small 1.9% of the group's capital base (total adjusted capital) at June 30, 2019. New loan loss provisioning requirements have been minimal for many years, even at the peak of the 2008-2009 financial crisis.

Nevertheless, in our view, the bank remains exposed to trading and underwriting risk, given its position as a major global investment bank and a significant issuer of securitized instruments. In particular, it is one of the leading banks in leveraged finance, which we generally regard as an activity with elevated risks. We note, however, that the bank has materially reduced its notional leveraged finance underwriting exposure and underwriting duration since 2007. Level 3 trading assets represent about 20% of its total adjusted capital, a level similar to other banks with major trading operations, although we understand at Credit Suisse this mainly includes the small residual stock of non-strategic assets.

The group's business lines of investment banking and wealth management also generally entail somewhat elevated exposure to litigation risk, and to operational and reputational risks, for instance from potential non-compliance with anti-financial crime regulation or from activities with politically exposed customers. Mitigating these risks, the group

has invested materially into the strengthening of its compliance function since the end of 2015. We think the bank is now well advanced in its compliance tools and policies, particularly around data intelligence.

Regarding litigation risk, Credit Suisse is still subject to a wide range of pending matters. Positively, we understand that none of them represents a material concentration risk. The single biggest exposure, in our view, relates to fraud allegations against some of its former employees in connection with syndicated loan arrangements by Credit Suisse and another bank of a total $2 billion to Mozambique state enterprises.

Table 5

Credit Suisse Group AG Risk Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	4.7	3.6	1.5	1.5	0.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(11.1)	(10.3)	(8.8)	N/A
Total managed assets/adjusted common equity (x)	21.7	21.8	23.2	26.4	22.8
New loan loss provisions/average customer loans	0.1	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	0.6	0.6	0.6	0.7	0.6
Loan loss reserves/gross nonperforming assets	49.9	50.1	56.5	50.5	56.3

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

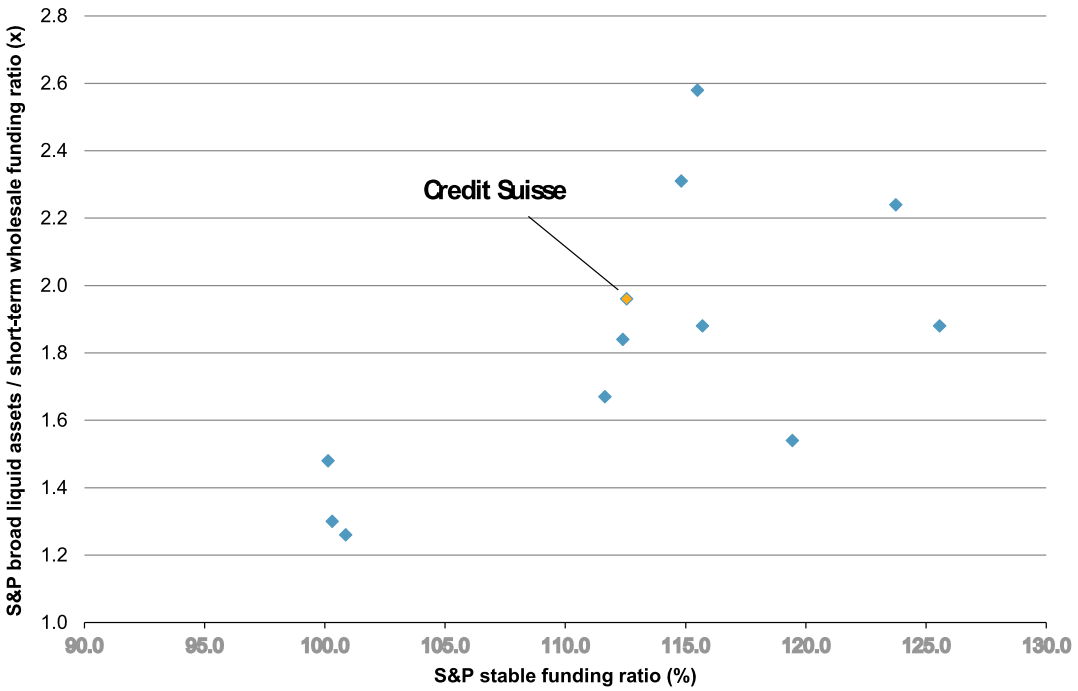
Funding and liquidity: Sustainable profile through balance sheet deleveraging

We view Credit Suisse's funding as average compared with Swiss peers and other banking systems with the same favorable industry risk score. We view the bank's liquidity position as adequate, which is an absolute view on how well placed it appears to be to withstand an extended period of market or idiosyncratic stress. 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.

We think that the bank prudently manages its asset and liability mismatches including extensive stress testing and forward-looking modeling of its liquidity position, both at group and subsidiary levels. It also adopted the regulatory net stable funding ratio early. Its ratio of S&P Global Ratings-adjusted broad liquid assets to short-term wholesale funding was a comfortable 1.7x on June 30, 2019, and its adjusted stable funding ratio was 104%. Both ratios compare well with other large European banks. By comparison, Credit Suisse reported a weighted-average regulatory liquidity coverage ratio (LCR) of 193% on June 30, 2019. The ratios indicate good liquidity buffers and sound matching of assets and liabilities. However, the high regulatory LCR also reflects that the sum of local requirements including management buffers for the group's branches and subsidiaries is higher than consolidated minimum requirement of an LCR of 100%. Therefore, we anticipate that Credit Suisse's liquidity and funding metrics will remain at similar levels over the foreseeable future.

Chart 7

Credit Suisse Funding And Liquidity Metrics In Line With Major Peers
At year-end 2018



Source: Company disclosures and S&P Global Ratings.

Additional factors limit our assessment of Credit Suisse's funding and liquidity. Although the amount of customer deposits exceeds the size of the group's loan book, we understand that many of Credit Suisse's depositors are high-net-worth and ultra high-net-worth individuals, and corporate accounts. We generally consider wealth management and corporate deposits to be more sensitive to bank-specific risk than those in mass-market retail banking, for example, wealth management deposits tend to exceed the maximum amount covered by deposit guarantee schemes. Finally, we consider investment banking to be an activity that relies on the effective functioning of wholesale funding markets, and we therefore see sensitivity to variations in investor confidence and refinancing risk.

Table 6

Credit Suisse Group AG Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	51.4	53.4	50.1	46.8	46.4
Customer loans (net)/customer deposits	88.0	84.2	84.7	87.5	88.2
Long-term funding ratio	79.5	80.0	77.3	76.0	77.5
Stable funding ratio	104.3	112.6	110.3	114.8	108.2
Short-term wholesale funding/funding base	22.0	21.6	24.4	25.7	24.3
Broad liquid assets/short-term wholesale funding (x)	1.7	2.0	1.8	1.9	1.8

Table 6

Credit Suisse Group AG Funding And Liquidity (cont.)

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Net broad liquid assets/short-term customer deposits	29.3	39.1	40.9	50.7	43.9
Short-term wholesale funding/total wholesale funding	43.9	44.8	47.2	46.9	43.8
Narrow liquid assets/3-month wholesale funding (x)	2.5	2.4	2.4	2.4	2.2

*Data as of June 30.

External support: Two notches of uplift for operating entities, due to strong buffers of subordinated capital in bail-in resolution

We add two notches of uplift to arrive at the long-term ICRs on CSAG and other operating bank subsidiaries, to reflect the substantial buffers of subordinated bail-in-able capital (ALAC), which largely reside at the holding company, CSG. We believe that these ALAC buffers would enable FINMA, the Swiss financial services regulator, to absorb losses and recapitalize Credit Suisse should it ever approach a point of non-viability. In our view, Credit Suisse is subject to a well-defined resolution plan by FINMA due to its status as a global highly systemic financial institution and as Switzerland's second-largest banking group. Conversely, since December 2015, we consider that extraordinary government support for systemically important banks in Switzerland has become uncertain.

The group's ALAC buffer stood at 11.1% of S&P Global Ratings' risk-weighted assets as of Dec. 31, 2018, well above the 8.5% threshold we set for Credit Suisse for two notches of uplift. We consider this level of ALAC to be sustainable and likely to strengthen further. We use 5.25% and 8.5% thresholds for one or two notches of uplift for ALAC support, respectively, for Credit Suisse because we consider that a material part of the group's loss-absorbing capacity will be pre-positioned in its main subsidiaries in Switzerland, the U.K., and the U.S. Prepositioning could make it more challenging for Credit Suisse to deploy ALAC flexibly in a stress scenario than for banking groups without such requirements.

Swiss globally systemic important banks such as Credit Suisse are subject to high requirements to build regulatory bail-in ("gone concern") capital by Jan. 1, 2020, being 5% of regulatory leverage exposure or 14.3% of risk-weighted exposure on a consolidated basis. Although FINMA can grant rebates for resolvability or quality of bail-in capital, we think that Credit Suisse will likely maintain a level of regulatory gone concern capital close or even slightly above the unadjusted headline requirements.

A recent consultation issued by Swiss authorities, if adopted as proposed, could mean that the sum of the individual legal entity stand-alone requirements plus a buffer add-on at CSAG might eventually match or even exceed the 14.3% and 5% consolidated requirements. These new rules would become effective Jan. 1, 2020 but propose a phase-in by Jan 1, 2024. Accordingly, we anticipate that in the medium term Credit Suisse plans to have available regulatory gone concern capital at CSG somewhat above CHF50 billion compared with CHF40 billion (fully loaded) as of June 30, 2019.

Additional rating factors:None

There are no additional rating factors.

Group ratings: CSG and subsidiaries

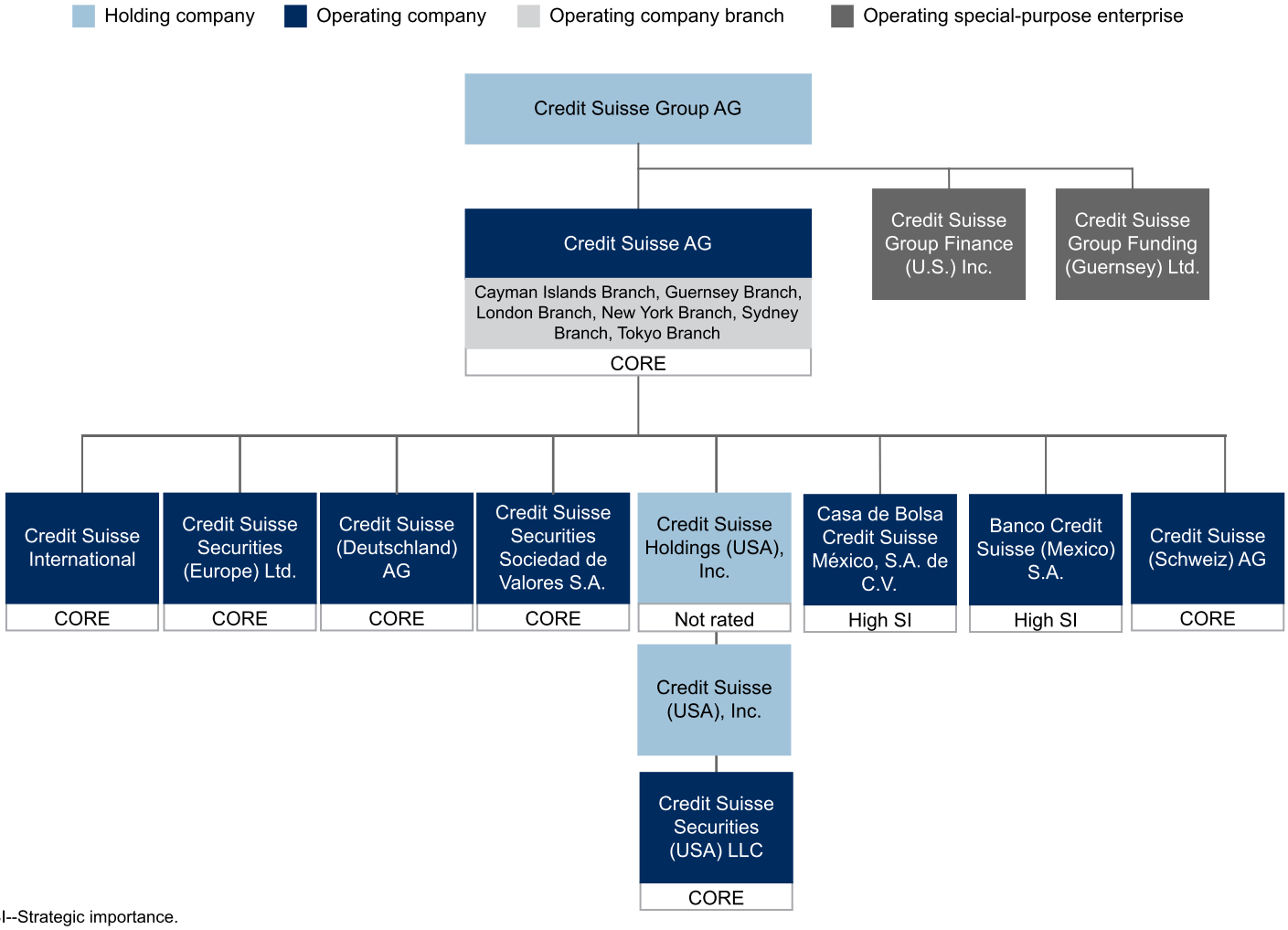
Credit Suisse Group AG is a nonoperating holding company. It is the parent of CSAG, the group's principal operating bank, which in turn owns the group's other operations (see chart 8).

CSG's 'BBB+' rating stands one notch below the 'a-' Group SACP, which leads to us rate it three notches lower than the 'A+' rating on its core operating companies. This reflects structural subordination as a non-operating holding company, and our view that it would not benefit from ALAC support. CSG has taken over the primary position for long-term capital markets funding for the group as it builds its buffer of bail-in-able capital. Senior unsecured issuances by CSG count into bail-in-able gone concern capital under Swiss too-big-to-fail bank regulation. It is our understanding of Swiss regulatory approaches that the holding company would be the first point of entry in resolution, forcing losses on the holding company bondholders without invoking a general default on the bank.

We also rate a number of subsidiaries and branches:

- We rate Credit Suisse AG's New York and Cayman Islands branches, and debt obligations issued by various other branches, at the same level as the ICR on CSAG. Our ratings are not constrained by the respective host sovereign foreign currency ratings, and we regard Cayman Islands as an offshore branch.
- We view the main rated bank subsidiaries operating in Switzerland, the U.S., the U.K. and the EU as core to the group. We therefore equalize the ratings on these entities with those on CSAG.
- We similarly rate Credit Suisse (USA) Inc., an intermediate holding company, at the level of Credit Suisse. We expect that Credit Suisse AG would route support for its subsidiaries in the U.S. through Credit Suisse (USA) Inc., as the entity plays an important role in the group's recovery and resolution plan. Furthermore, Credit Suisse has guaranteed fully and unconditionally on a senior basis all outstanding U.S.-registered debt securities issued by the entity.
- We rate two highly strategic Mexican subsidiaries--Casa de Bolsa Credit Suisse Mexico and Banco Credit Suisse Mexico--'mxAAA', using our Mexico national scale.
- We also rate debt obligations by Credit Suisse Group (Funding) Guernsey Ltd. and Credit Suisse Finance (U.S.) Inc. at the level of CSG, based on guarantees provided by the group holding company.

Highly Simplified Overview Of Credit Suisse's Organizational Structure, Focusing On Rated Entities



SI--Strategic importance.

Hybrid issue ratings

Hybrid capital instruments are notched down from the 'a-' Group SACP because we expect these instruments to be written down or converted into equity in a bail-in resolution scenario. Therefore, they do not benefit from the group's ALAC buffers. For hybrids issued by CSG, we also deduct one notch to reflect the structural subordination of holding company creditors.

In addition, we deduct one notch due to the hybrids' contractual subordination to senior obligations, and a further notch due to the risk of write-down ahead of resolution, if the Swiss government were to recapitalize the group before it became non-viable. We assume that the Swiss government would seek to impose losses on regulatory capital instruments in such a scenario, typically detailed by explicit viability event clauses in these instruments' terms and conditions. We then deduct two further notches in our ratings on the group's additional Tier 1 instruments, reflecting their status as Tier 1 regulatory capital.

We deduct an additional notch in our ratings on the group's additional Tier 1 instruments with a conversion or write-down trigger if the applicable Basel III CET1 ratio falls below 7%. We consider such a high trigger level as a going concern trigger, where we may lower the ratings depending on the distance of the actual ratio above the trigger level. Given the group's capital target of a CET1 ratio of about 12.5%, we consider that the ratio will remain 301–700 basis points above the 7% threshold over the next 12-24 months, which is commensurate with deducting one notch.

Resolution Counterparty Ratings

We set the RCRs on Credit Suisse AG and subsidiaries in Switzerland, the U.K., Spain, and Germany one notch above our 'A+' long-term ICRs. This reflects the typical approach under our RCR framework when the ICR ranges from 'BBB-' to 'A+'. It also reflects our jurisdiction assessments on these countries. By contrast, our RCR on U.S.-based Credit Suisse Securities (USA) LLC is at the same level as the ICR on this entity, given that we concluded that in the U.S. there is insufficient visibility on whether certain senior liabilities have lower default risk than others in a bail-in resolution.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- For Global Banks, The Fickleness Of Capital Markets Revenue Is On Full Display, June 19, 2019
- Credit Suisse AG Upgraded To 'A+' On Sustained Earnings Improvements; Outlook Stable, May 21, 2019
- Banking Industry Country Risk Assessment: Switzerland, Nov. 30, 2018
- Germany-Based Credit Suisse (Deutschland) AG Assigned 'A/A-1' Ratings; Outlook Positive, Nov. 7, 2018
- Spain-Based Credit Suisse Securities Sociedad de Valores Assigned 'A/A-1' Ratings; Outlook Positive, Oct. 11, 2018
- Credit Suisse AG Outlook To Positive On Restructuring Progress; 'A+/A-1' Resolution Counterparty Ratings Assigned, June 25, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Switzerland Completed, June 25, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Germany Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Spain Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For The U.S. Completed, June 7, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For The U.K. Completed, April 30, 2018

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 September 13, 2019)*

Credit Suisse Group AG	
Issuer Credit Rating	BBB+/Stable/NR

Ratings Detail (As Of September 13, 2019)*(cont.)		
Junior Subordinated		BB
Junior Subordinated		BB-
Senior Unsecured		BBB+
Issuer Credit Ratings History		
03-Feb-2015	*Foreign Currency*	BBB+/Stable/NR
29-Apr-2014		A-/Negative/NR
02-Jul-2013		A-/Stable/NR
03-Feb-2015	*Local Currency*	BBB+/Stable/NR
29-Apr-2014		A-/Negative/NR
02-Jul-2013		A-/Stable/NR
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+
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		
Issuer Credit Rating		A+/Stable/A-1
Resolution Counterparty Rating		AA-/--/A-1+
Commercial Paper		
Foreign Currency		A-1
Senior Unsecured		A+
Subordinated		BBB
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+
Senior Unsecured		A+
Subordinated		BBB
Credit Suisse AG (Sydney Branch)		
Senior Unsecured		A+

Ratings Detail (As Of September 13, 2019)*(cont.)	
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 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+
Credit Suisse Securities (USA) LLC	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
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.